EXTENDING UNEMPLOYMENT INSURANCE

HEARING

BEFORE THE

SUBCOMMITTEE ON INCOME SECURITY
AND FAMILY SUPPORT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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EXTENDING UNEMPLOYMENT INSURANCE

THURSDAY, APRIL 10, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:00 a.m., in room B–318, Rayburn House Office Building, the Honorable Jim McDermott [Chairman of the Subcommittee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1025
March 15, 2007
ISFS–4

McDermott Announces Hearing on Assistance for Elderly and Disabled Refugees

Congressman Jim McDermott (D–WA), Chairman of the Subcommittee on Income Security and Family Support of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on assistance for elderly and disabled refugees. **The hearing will take place on Thursday, March 22, 2007, at 12:30 pm in room B–318 Rayburn House Office Building.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. Witnesses will include affected individuals and those assisting them. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Supplemental Security Income (SSI) program provides cash benefits to elderly and disabled individuals who have very low incomes and limited resources. Maximum monthly benefits equal $623 per individual and $934 per couple. Prior to 1996, legal immigrants, including refugees and other humanitarian immigrants, were eligible for SSI on the same basis as U.S. citizens. As part of the 1996 welfare reform law, nearly all legal immigrants were made ineligible for SSI, except for refugees and other humanitarian immigrants who were allowed to receive SSI during their first five years in the United States (which was later extended to seven years).

According to Social Security Administration (SSA), over 40,000 refugees and other "humanitarian" immigrants in the United States could reach the seven-year cut-off for SSI over the next ten years. Some also may lose Medicaid coverage upon the termination of their SSI benefit. These elderly and disabled refugees have generally fled political and/or religious persecution in their home countries and have arrived in the U.S. with little, if any, income or assets.

Obtaining U.S. citizenship would prevent the termination of SSI benefits, but a variety of issues make that difficult. One important barrier to citizenship within the seven-year period is lengthy delays in processing of citizenship and adjustment applications by the U.S. Citizenship and Immigration Services or USCIS. (Refugees and other humanitarian immigrants must first live in the United States for five years as a legal permanent resident before they are even eligible to apply for citizenship.) Processing backlogs have been caused by increases in the number of applications, computer problems, insufficient staffing levels in some areas, and lengthy background checks put in place after the September 11, 2001 terrorist attacks. Additionally, the application process involves multiple steps including a lengthy application, an in-person interview, a test of English proficiency and civic knowledge, and an application fee—all of which might present barriers for elderly or disabled refugees.

In announcing the hearing, Chairman McDermott declared, **"Having fled persecution, many refugees come to this country with little more than the clothes on their backs. We need to live up to our nation's tradition of providing a helping hand to those most in need by extending assistance to refugees who are too elderly or too disabled to work."**

FOCUS OF THE HEARING:

The hearing will focus on the current limitation on providing SSI benefits to refugees and other humanitarian immigrants.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "110th Congress" from the menu entitled, "Hearing Archives" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You MUST REPLY to the email and ATTACH your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **April 5, 2007**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman MCDERMOTT. The meeting will come to order. Today we are going to talk about unemployment insurance.

If a hurricane had struck an American community today, we would immediately dispatch Federal aid. Within hours, people would know that help was on the way. Within days, people would be rebuilding their lives with the help of the Federal Government, in other words, with the help of the rest of the American people.

A hurricane has struck the U.S. economy and we have not responded the way we should, in my view. Millions of Americans have been struck and they need our help. They deserve our help. The damage has been done to millions of Americans and Congress should tell these people that help is on the way, as it should be and as it has been in the past.

Over the last 50 years, Congress has extended unemployment benefits on seven different occasions, 1958, 1961, 1972, 1975, 1982, 1992 and 2002. It is not as though we are doing something radical or new here.

These extensions were enacted because weak labor markets make it harder for dislocated workers to find new employment. Just saying "get a job" does not make any sense when there are not many jobs around.

The evidence clearly suggests that it is time for Congress to once again extend assistance to the unemployed.

I was therefore pleased to introduce bipartisan legislation with Mr. English to provide extended unemployment benefits in every State.

The Emergency Extended Unemployment Compensation Act would help the over three million workers who are projected to exhaust their regular unemployment compensation in 2008.

The extension of benefits would be very similar to the program enacted in 2002, providing 13 weeks of benefits in every State with an additional 13 weeks available in high unemployment states.

The benefits would be paid for by the Federal unemployment trust funds which now have more than enough reserves to cover the cost. In my view, there is a bill improving the UI system that should have been passed months ago but it is still sitting over in the Senate waiting for consideration, so we are going to send them a second chance at making UI more responsive; this time by extending benefits.

First, long term unemployment is now very high. In fact, the number of workers who have been jobless for longer than 6 months is slightly higher today that it was when Congress last extended unemployment benefits in 2002.

Second, the overall joblessness is growing. Over the last 12 months, the number of unemployed Americans has increased by over one million. Whenever we exceeded that threshold in the past, our Nation was already well into a recession.

With the number of jobs in our economy declining by over 230,000 in the first 3 months of this year, there is every reason to believe that the number of jobless Americans will continue to increase in the coming months.

Third, we have areas of high unemployment throughout our Nation. Certainly, some states have higher unemployment rates than others, but over 100 metropolitan areas today across the country

have unemployment rates that exceed 6 percent. Some are as high as 10 percent, for example in the Los Angeles area.

Fourth, and most economists agree, that extended unemployment benefits are one of the most effective forms of economic stimulus. After all, the unemployed have little option but to spend their benefits quickly. They do not go down and put it in their bank account because they do not have any money to buy bread and gasoline and pay rent.

Gasoline costs, fuel costs for heating your home, and costs for food are going up; all of these things make it a good economic stimulus.

I hope today we can develop a strong bipartisan consensus to promptly act on behalf of displaced workers who need help as they look for a new job.

As I said earlier, the U.S. economy has been struck by a hurricane. Millions of Americans are affected. I do not want our response to the economic hurricane to look like our response to Katrina.

We need to extend unemployment benefits and we need to do it now, and I yield to the Ranking Member, Mr. Weller.

Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman, for this timely hearing this morning. I appreciate the opportunity to join you here at this hearing.

I note that in her January 29th Floor statement on the bipartisan economic stimulus package Congress was ready to pass, Speaker Pelosi said "I think it's a good day for us here and let's hope for the Senate to take their lead from us and be disciplined, focused, fiscally responsible, and act in a timely, temporary, and targeted way on behalf of meeting the needs of the American people."

Mr. Chairman, I agree with the Speaker that we should act in a way that is timely, temporary and targeted and meets the needs of the American people when it comes to extending unemployment benefits.

Today's unemployment rate is 5.1 percent. Recent months have seen job losses which while historically modest are no less painful for families involved.

Yet today more than one-third of the states have unemployment rates of 4 percent or less. Two-thirds of the states have unemployment rates of 5 percent or less. More than one-half of the states, a total of 27, have unemployment rates within 1 percentage point of their all time low. Only two states today, Michigan and Alaska, have unemployment rates above 6 percent.

Mr. Chairman, I ask unanimous consent to insert into the record recent Bureau of Labor Statistics information from the U.S. Department of Labor, statistics regarding unemployment rates for each State.

Chairman MCDERMOTT. Without objection, so ordered.

[The information referred to follows:]

Unemployment Rates for States

Unemployment Rates for States
Monthly Rankings
Seasonally Adjusted
Feb. 2008p

Rank	State	Rate
1	SOUTH DAKOTA	2.6
2	WYOMING	2.7
3	IDAHO	2.8
3	NEBRASKA	2.8
5	NORTH DAKOTA	3.0
5	UTAH	3.0
7	OKLAHOMA	3.1
8	HAWAII	3.2
8	NEW MEXICO	3.2
10	MONTANA	3.3
11	MARYLAND	3.4
12	IOWA	3.5
12	VIRGINIA	3.5
14	ALABAMA	3.7
14	DELAWARE	3.7
14	KANSAS	3.7
14	LOUISIANA	3.7
14	NEW HAMPSHIRE	3.7
19	ARIZONA	4.0
20	TEXAS	4.1
21	VERMONT	4.3
22	COLORADO	4.4
23	MASSACHUSETTS	4.5
23	NEW YORK	4.5
23	WASHINGTON	4.5
26	FLORIDA	4.6
26	INDIANA	4.6
26	MINNESOTA	4.6
26	WEST VIRGINIA	4.6
30	MAINE	4.8
30	NEW JERSEY	4.8
32	PENNSYLVANIA	4.9
32	WISCONSIN	4.9
34	ARKANSAS	5.0

34	CONNECTICUT	5.0
34	NORTH CAROLINA	5.0
37	GEORGIA	5.2
37	KENTUCKY	5.2
39	MISSOURI	5.3
39	OHIO	5.3
39	TENNESSEE	5.3
42	ILLINOIS	5.5
42	NEVADA	5.5
42	OREGON	5.5
42	SOUTH CAROLINA	5.5
46	CALIFORNIA	5.7
47	RHODE ISLAND	5.8
48	DISTRICT OF COLUMBIA	5.9
48	MISSISSIPPI	5.9
50	ALASKA	6.6
51	MICHIGAN	7.2

p = preliminary.
NOTE: Rates shown are a percentage of the labor force. Data refer to place of residence. Estimates for the current year are subject to revision early in the following calendar year.

Last Modified Date: March 28, 2008

U.S. Bureau of Labor Statistics
Local Area Unemployment Statistics Information and Analysis
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Current Unemployment Rates for States and Historical Highs/Lows

Current Unemployment Rates for States and Historical Highs/Lows
Seasonally Adjusted

	Feb. 2008P	Historical High		Historical Low	
State	Rate	Date	Rate	Date	Rate
Alabama	3.7	Dec. 1982	14.4	Feb. 2007	3.3
Alaska	6.6	July 1986	11.5	Sept. 1999	5.9
Arizona	4.0	Feb. 1983	11.5	June 2007	3.6
Arkansas	5.0	Mar. 1983	10.2	Sept. 2000	4.1
California	5.7	Feb. 1983	11.0	Feb. 2001	4.7
Colorado	4.4	Nov. 1982	9.1	Jan. 2001	2.5
Connecticut	5.0	Jan. 1976	10.0	Nov. 2000	2.1
Delaware	3.7	Jan. 1977	8.2	Oct. 1988	2.9
District of Columbia	5.9	Mar. 1983	11.4	Dec. 1988	4.8
Florida	4.6	Mar. 1976	9.7	May 2006	3.3
Georgia	5.2	Jan. 1983	8.3	Dec. 2000	3.4
Hawaii	3.2	Mar. 1976	10.2	Dec. 2006	2.2
Idaho	2.8	Feb. 1983	9.4	Dec. 2007	2.7
Illinois	5.5	Feb. 1983	12.9	Mar. 1999	4.1
Indiana	4.6	Nov. 1982	12.8	Apr. 1999	2.6
Iowa	3.5	May 1983	8.5	Jan. 2000	2.6
Kansas	3.7	Sept. 1982	7.4	Oct. 1978	2.9
Kentucky	5.2	Dec. 1982	12.1	Mar. 2000	4.0
Louisiana	3.7	Sept. 1986	12.9	July 2006	3.2
Maine	4.8	Mar. 1977	9.0	Jan. 2001	3.0
Maryland	3.4	Aug. 1982	8.3	Mar. 2000	3.3
Massachusetts	4.5	Jan. 1976	10.9	Dec. 2000	2.7
Michigan	7.2	Nov. 1982	16.9	Mar. 2000	3.2
Minnesota	4.6	Nov. 1982	9.0	Apr. 1999	2.5
Mississippi	5.9	May 1983	13.7	Jan. 2001	4.9
Missouri	5.3	Apr. 1983	10.5	Jan. 2000	2.6
Montana	3.3	May 1983	8.7	Aug. 2007	3.1
Nebraska	2.8	Feb. 1983	6.8	Feb. 1998	2.2
Nevada	5.5	Dec. 1982	10.7	Apr. 2006	4.1
New Hampshire	3.7	June 1992	7.7	Apr. 1987	1.9
New Jersey	4.8	Feb. 1977	10.6	June 2000	3.5
New Mexico	3.2	Apr. 1983	9.9	Jan. 2008	3.1
New York	4.5	July 1976	10.5	Apr. 1988	4.0
North Carolina	5.0	Feb. 1983	10.2	Apr. 1999	3.1
North Dakota	3.0	Mar. 1983	6.9	Jan. 1998	2.5

Ohio	5.3	Jan. 1983	13.8	Mar. 2001	3.9
Oklahoma	3.1	Aug. 1986	9.4	Jan. 2001	2.7
Oregon	5.5	Nov. 1982	12.1	Apr. 1995	4.7
Pennsylvania	4.9	Mar. 1983	12.9	Mar. 2000	4.0
Rhode Island	5.8	Nov. 1982	9.7	July 1988	2.9
South Carolina	5.5	Jan. 1983	11.4	Mar. 1998	3.1
South Dakota	2.6	Oct. 1982	5.9	Mar. 2000	2.4
Tennessee	5.3	Dec. 1982	12.4	Mar. 2000	3.8
Texas	4.1	Oct. 1986	9.3	Feb. 2008	4.1
Utah	3.0	Mar. 1983	9.7	Mar. 2007	2.4
Vermont	4.3	June 1976	9.0	Mar. 2000	2.2
Virginia	3.5	Jan. 1983	7.8	Jan. 2001	2.2
Washington	4.5	Nov. 1982	12.2	Apr. 2007	4.4
West Virginia	4.6	Mar. 1983	18.2	Jan. 2007	4.3
Wisconsin	4.9	Jan. 1983	11.8	Apr. 1999	2.9
Wyoming	2.7	May 1983	10.1	Feb. 1979	1.9
Note: Data series begin in January 1976.					

P = preliminary.
NOTE: Rates shown are a percentage of the labor force. Data refer to place of residence. Estimates for at least the latest three years are subject to revision early in the following calendar year.
Historical highs and lows show the most recent month that a rate was recorded in the event of multiple occurrences.

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Do you have an LAUS data question?

Mr. WELLER. Thank you, Mr. Chairman.

This suggests that the current economic downturn is regional, with many states doing well and others not so well. Consistent with the Speaker's earlier challenge, any response we craft should be equally targeted.

That is why I have introduced the TARGET Act, H.R. 5688. This legislation would help pay extended unemployment benefits in states where unemployment rates are 6 percent or higher, among other criteria.

This builds off the current extended benefits program, whose unemployment rate thresholds many critics say are too high. The TARGET Act relaxes those unemployment rate thresholds so many states can qualify. It offers more weeks of benefits to long term unemployed workers. It provides more Federal funds to states that experience worsening unemployment.

The TARGET Act reflects a different approach from prior temporary programs and most current proposals which would provide benefits no matter how low State unemployment rates might be, which is similar to the practice, Mr. Chairman, you have proposed.

Why target benefits? For starters, because today's national unemployment rate is relatively low, reflecting the small number of high unemployment states today. So, the merits of a targeted over an untargeted approach are even stronger now then when Congress

acted when unemployment rates were 5.7 percent or 7 percent or higher.

While we are at it, I also believe, Mr. Chairman, we should revisit last year's common ground on wage insurance, at least offering states the flexibility to test this approach of helping workers go back to work.

I have introduced legislation to do just that. I know, Mr. Chairman, you have proposed creating a new Federal wage insurance program as well. It is an area where I believe we can work together.

We should at least test whether this approach can help long term unemployment workers or those who might become so without this sort of help.

Giving states this flexibility answers the Speaker's call for fiscally responsible proposals, so does a targeted approach to extending unemployment benefits. In fact, untargeted proposals cost ten times as much as my targeted proposal because untargeted proposals pay benefits in states where unemployment rates are low because jobs are easier to find.

I note that I am not alone in proposing to target extended benefits. One labor leader recently wrote "We propose a new 100 percent federally funded program that goes into effect when unemployment reaches excessive levels. This program would extend benefits by 13 weeks when unemployment hits 5.5 percent and another 13 weeks when it reaches 6 percent, with the Federal Government paying the cost.

If the best Congress can do is to reform extended benefits, then let's make sure that when the 3 month national unemployment rate reaches 5.5 percent the program is triggered in every State where joblessness has reached above 5 percent."

This quote is from an article called "Rx for Recession: An Economic Strategy that Works." The article was written by the President of the Economic Policy Institute, an organization testifying today at the Chairman's request. I would note the article is on the AFL–CIO website in case anyone would like to read more.

Mr. Chairman, thank you for calling this important hearing. I look forward to the testimony of our guests.

Chairman MCDERMOTT. Thank you. The Members will have 5 days to enter any speeches or statements they want to make in the record.

Dr. Blank, we will begin with you. Dr. Blank is a Visiting Fellow from the Brookings Institution. You have 5 minutes to tell us everything you know or at least the most important things you know.

STATEMENT OF REBECCA M. BLANK, PH.D., ROBERT V. KERR VISITING FELLOW, THE BROOKINGS INSTITUTION

Dr. BLANK. I will try. Thank you, Chairman McDermott, Ranking Member Weller, other Members of the Subcommittee. I am honored to be here today.

I want to make two primary points in this testimony. First, the unemployment rate cannot be easily compared today to past unemployment rates. If we had a similar population now as in earlier years, the current unemployment rate would be higher.

Second, a variety of other labor force measures suggest that Americans who lose their job are facing serious economic problems.

There are two primary reasons why unemployment rates in 2008 are not entirely comparable to earlier periods. Most important is the shifting age distribution in the civilian labor force. As the baby boom ages, the share of workers in the older age groups is rising while the share of workers in younger age groups is falling.

This tends to have the effect of lowering the aggregate unemployment rate because unemployment among older workers on average is lower.

If you take the age specific unemployment rates in March 2008 and weight them by the population distribution in 1990, you would find our unemployment rate would be a whole half point higher, very comparable to where it was at the beginning of the recession in 1990.

In short, this shifting age distribution should change our expectations of what constitutes low unemployment. From the point of view of any worker, comparing themselves to their age peers, things are as bad or worse as they were in comparable times in the beginning of earlier recessions.

There is another effect depressing unemployment rates and that is the rising share of young men in prison or jail. I suspect you all saw the report from the Pew Foundation saying one out of every 100 Americans is in prison these days. People in prison are not counted in our labor force statistics. We also do not count the Armed Forces.

I have done a simple simulation that essentially adds the Armed Forces back into the civilian labor force and make some assumptions about what the prison population would look like if it were actually out there in the labor force. Obviously, it has a higher unemployment rate. It is disproportionately young men.

It turns out that among men ages 16 to 34, the unemployment rate would rise to up near 8 percent if indeed we had again this population in the labor force and prison had not been growing.

In short, by expanding the prison population, we have removed more and more young men from our labor market count and this also reduces aggregate unemployment rates.

Finally, a last point that is important. Unemployment rates and employment statistics in general are lagging indicators of a recession. They rise during a recession and they often peak after the recession is over. The result is these are not a good indicator of where we are right now in terms of overall economic strength.

The unemployment rate is hardly the only measure of labor market health, however, and let me emphasize five other indicators that are showing serious problems.

First of all, in recent months, there has been a marked slowdown in employment growth. Year over year, employment growth was actually negative in March 2008.

Secondly, these declines in employment are widespread throughout the economy. This is not a problem of a few sectors or a few industries.

Third, wage growth has slowed over the last six months. The annual change in real earnings has been negative since October.

Fourth, the share of the population that is working or looking for work has fallen over the past year, and fifth, the indicators of labor market slackness beyond unemployment are also at very high levels.

My colleague, Dr. Shierholz, is going to talk more about long term unemployment.

I would note that if you add the unemployed, if you add those who were working part-time and voluntarily, and those who are marginally attached to the labor market, those who have been looking for work but they have quit because they cannot find a job, you would find that nine percent of the labor market is in trouble in March 2008.

If you believe like I do that the U.S. economy is almost surely in a serious recession right now, unemployment rates are likely to increase steadily in the months ahead.

Should we enact extended benefits now or wait? I would recommend an extended benefits bill for two primary reasons.

First, the unusually high rates of long term unemployment in the current economy suggests a growing share of the unemployed who are receiving unemployment benefits are going to exhaust them in the next few months without finding a job.

Second, I believe we have waited too long in past recessions. We know that unemployment rates are a lagging indicator. Given the problems signaled by virtually all of our other economic indicators, we have every reason to believe that labor market problems will rise steadily in the months ahead, and we should take proactive measures now to protect workers who become unemployed.

Finally, I just want to respond briefly to the proposal to provide extended benefits only to states with very high unemployment. Extended benefits primarily helps the long term unemployed because those are the people that are going to come on to extended benefits, and the proposal would make a lot of sense if long term unemployment was disproportionately concentrated in high unemployment states.

The latest data we have available for this is for the year 2007. If you take the five highest unemployment states in the year 2007, while they have about 13 percent of total unemployment, they have only 15 percent of the long term unemployment.

If you enacted extended benefits only for that group, 85 percent of the long term unemployed would not be covered.

In short, now is the time to enact extended unemployment benefits. Waiting for the unemployment rate to rise higher would be a mistake.

Thank you.

[The statement of Rebecca M. Blank follows:]

Statement of Rebecca Blank, Ph. D., Robert V. Kerr Visiting Fellow, The Brookings Institution

Rebecca Blank is the Henry Carter Adams Professor of Public Policy and Professor of Economics, University of Michigan, where she also serves as co-director of the National Poverty Center. She is currently on leave as the Robert V. Kerr Visiting Fellow at Brookings Institution in Washington, D.C. The views expressed in this testimony reflect her opinions and not those of any of the organizations with which she is affiliated.

Chairman McDermott, Ranking Member Weller, and distinguished members of the Committee, I appreciate the opportunity to talk with you today about the state

of the labor market and its implications for policy. I plan to make several remarks about the labor market and its current problems and then discuss the implications of these facts for the debate over extended benefits.

The discussion of potential recession has dominated the economic news over the past few months. Yet the unemployment rate—one of our most-utilized measures of labor market weakness—has stayed relatively low. It was at or below 5% for the past two and a half years; the data release last Friday showed that it crept up to 5.1% in March 2008. While a significant increase, this is still lower than in many past recessions.

Some have argued that this relatively low unemployment rate means that it's too early to think about extended benefits. In the past few recessions, extended benefits have not been enacted until unemployment rates were 5.7% or higher. I want to make two primary points in this testimony. First, the current unemployment rate cannot be easily compared to past unemployment rates. If we had a similar population in the labor force today as in earlier periods, our current unemployment rate would be much higher. Second, a variety of other labor force measures suggest that those Americans who lose their jobs are facing serious economic problems.

Changes in the Composition of the Labor Market Have Driven Unemployment Rates Down

There are two primary reasons why unemployment rates in 2008 are not entirely comparable to those from earlier periods.

Most important is the *shifting age distribution of the civilian labor force*. As the baby boom generation has aged, the share of workers in older age groups has steadily grown, while the share in younger age groups has fallen. This has the effect of lowering the overall unemployment rate because older workers tend to have lower unemployment rates. Columns 1 through 3 of Table 1 show the unemployment rate by age group at the beginning month of each of the last two recessions, in July 1990 and March 2001, as well as our most recent statistics in March 2008. Columns 4 through 6 show how the share of workers within each age group has shifted over this time period. There is a steady growth in the share of older workers and a decline in the share of younger workers.

It is apparent from Table 1 that *unemployment is higher among every age group of workers in March 2008 compared to March 2001, and higher among most groups compared to July 1990 even though overall unemployment is lower*. This is because the weights across the age groups have shifted.

Table 1

Unemployment Rate by Age and Labor Force Share in Selected Months

Ages	Unemployment Rate (percent)			Share of Labor Force (percent)		
	Mar-08	Mar-01	July-90	Mar-08	Mar-01	July-90
16–19	15.8	13.4	15.0	4.4	5.6	6.2
20–24	9.3	8.1	8.5	9.8	10.2	11.7
25–34	5.3	4.3	5.6	21.7	22.6	28.5
35–44	3.8	3.4	4.2	22.8	26.2	25.5
45–54	3.5	2.8	3.3	23.3	22.2	16.1
55+	3.4	2.6	3.1	17.9	13.3	11.9
Total Labor Force Share				100.0	100.0	100.0
Aggregate Unemployment Rate	5.1	4.3	5.5			
Mar-08 Unemployment weighted by Mar-01 Labor Force Share		5.3				
Mar-08 Unemployment weighted by July-90 Labor Force Share			5.5			

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov/home.htm. Labor force shares by age and weighted unemployment rates are author's tabulations from BLS data.

Notes: July 1990 and March 2001 are the beginning months of the last two recessions, according to the Business Cycle Dating Committee of the National Bureau of Economic Research; March 2008 is the most recent month for which data is available. All reported data are seasonally adjusted.

If you take the age-specific unemployment rates in March 2008 and weight them as if the labor force looked as it did in July 1990, the unemployment rate in 2008 would be 5.5% rather than 5.1%, the same as the actual unemployment rate of 5.5% in July 1990. Similarly, the March 2008 unemployment rate would be 5.3% if age

groups are weighted by the March 2001 labor force weights, far above the actual March 2001 unemployment rate of 4.3%.

In short, the shifting age distribution in the population should change our expectations about what constitutes low versus high unemployment. Because older workers have lower unemployment rates, base unemployment rates have fallen with an aging workforce. Hence, the same unemployment rate in March 2008 signals more problems than it would have in early 1990 or even in early 2001. From the point of view of any worker who compares herself to her age peers, unemployment is worse now than at those earlier moments in time.

There is another effect depressing unemployment rates, and that is *the rising share of younger men in jail or prison*. I suspect most of you saw the report from the Pew Foundation in February noting that 1 out of every 100 adult Americans are now in prison (Pew Center on the States, 2008). Our labor force statistics are based on civilian non-institutionalized persons. Those in prison are not counted. This particularly affects younger men. Of course, the civilian labor force data also excludes those in the Armed Forces, all of whom are employed. This also disproportionately affects younger men.

Rather than working with the civilian non-institutionalized population, I add Armed Forces personnel and those in jails and prisons to the population numbers and add Armed Forces personnel to the employment numbers. I do this calculation for 2006, the latest year for which all these data are available.

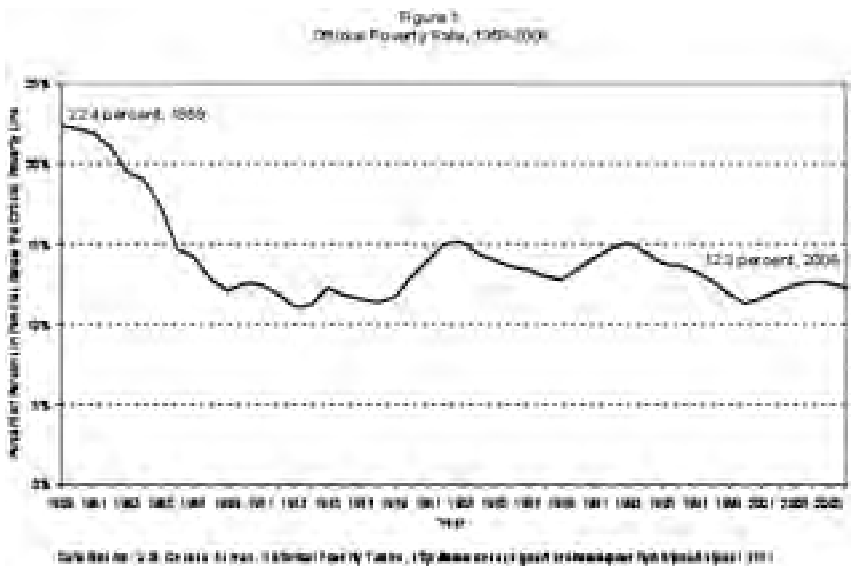
It has hard to calculate an adjusted unemployment rate because we are not sure how many men currently in prison would be actively seeking work. For a back-of-the-envelope calculation, I assume that 80% of those in prison would be in the workforce if they were not in prison, and that the unemployment rate among these men would be 25%. (This is only slightly higher than the current 21% unemployment rate among young men ages 16–19.) Under these circumstances, the 2006 male unemployment rate would rise from its reported level of 4.6% to 4.9%.

Of course, most of the men in prison or in the Armed Forces are younger. If I assume that all of these men are between the ages of 16 and 34, I can look at the effect on employment-to-population ratios and on the unemployment rate for that group in the population. Taking account of both the Armed Forces and the large number of men in prisons or jails, the 2006 employment-to-population ratio among men ages 16–34 would fall from 72.3% to 69.5%. Their unemployment rate would rise from its reported 2006 level of 7.2% to an estimated 7.8%.

In short, by expanding the prison population, we have removed more and more young men from our labor market count. This reduces aggregate unemployment rates and raises employment shares, since these are often persons who would have difficulty finding jobs if they were not in prison.

These two shifts—in the age distribution of the population and in the share of men who are part of the civilian labor force—mean that the equivalent unemployment rates are lower now than in the past. If we had a similar population now as in 1990, the unemployment rates in both periods would very similar. Hence, we can't just compare the level of today's unemployment rate to earlier periods without realizing that equivalent problems are occurring at a lower level of reported joblessness today than in the past.

Finally, if we want to understand why unemployment rates look low right now, there is one other very important comment to make: *Unemployment rates and employment changes are lagging indicators of an economic slowdown*. Unemployment rates are typically low at the point a recession begins. They rise during a recession and often peak after a recession has ended. Hence, unemployment rates are NOT a good indicator of whether an economy has entered a recession. Figure 1 plots unemployment rates over the past 25 years. The shaded areas indicate periods of recession. In every recession, unemployment rates are low in the first month, and often peak after the end of a recession.



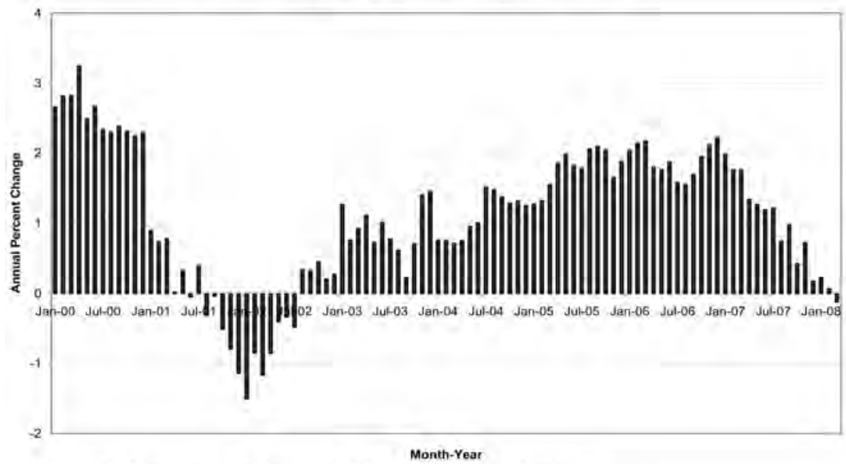
Because unemployment rises slowly, the political impetus to enact extended benefit legislation often occurs later in a recession, once unemployment rates are higher. Figure 1 indicates that extended benefits have been enacted quite late in past recessions. In fact, in both the early 1990s and the early 2000s, extended benefits were enacted after the official end of the recession (but at a time when unemployment rates were still rising.)

What Other Evidence Do We Have of Problems in the Labor Market?

The unemployment rate is hardly the only measure of labor market health. Let me summarize five other indicators that suggest there are serious problems in today's labor market.

First, recent months have shown a *marked slowdown in employment growth*. From March 2006 through March 2007, employment grew by 1.8%. Over this past year, from March 2007 through March 2008, employment actually declined by 0.1% Figure 2 shows the annual changes in unemployment from month to month; the recent slowdown in employment growth is clearly visible over the past year, and very reminiscent of the pattern at the beginning of past recessions.

Figure 2.
Annual Change in Employment, January 2000 to March 2008

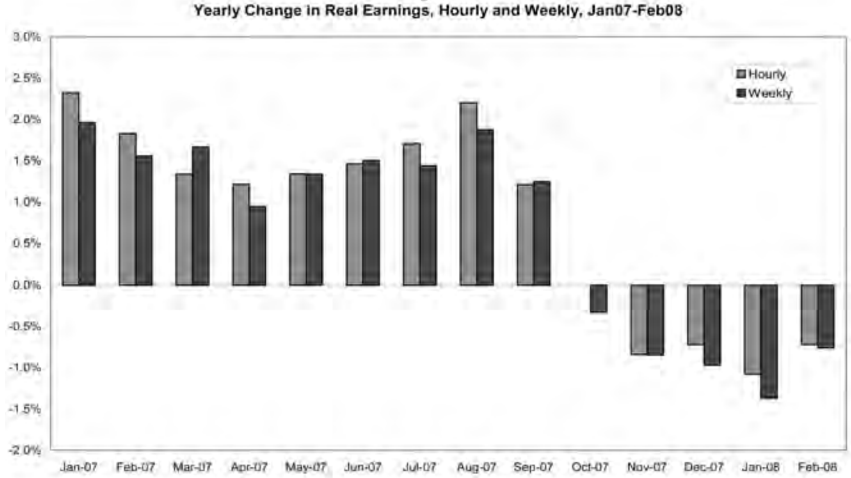


Source: U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov/home.htm
Note: Employment data are seasonally adjusted.

Second, the *declines in employment are widespread in the economy*. In the last month, employment fell or was flat in almost every industry except health care services, food services, and local government. This widespread job loss is particularly worrisome, and I take it as a sign that we are almost surely in recession in this country. We don't have an economy with some weak spots and some areas of ongoing strength. The employment data suggests weakness in almost all sectors.

Third, *wage growth has slowed over the last six months*. Figure 3, taken from a chart constructed by Jared Bernstein at the Economic Policy Institute (Bernstein, 2008), indicates that the annual change in real earnings has been negative since October. This is due to the combination of very slow growth in nominal wages and faster inflation, leading to a decline in real (inflation-adjusted) wages.

Figure 3.
Yearly Change in Real Earnings, Hourly and Weekly, Jan07-Feb08



Source: Figure and data for January 2007 to January 2008 provided by Jared Bernstein at the Economic Policy Institute, originally published online at http://www.epi.org/content.cfm/webfeatures_snapshots_20080220se (February 20, 2008). Data for February 2008 are author's own tabulations. Original wage data from the Bureau of Labor Statistics.

Fourth, *the share of the population that is working or looking for work has fallen over the past year*. If we're losing jobs, but unemployment hasn't increased, this

means that some people are dropping out of the labor market entirely. This 'discouraged worker' effect is often a sign that workers are pessimistic about their chances of finding a new job. The declines in labor force participation are particularly noticeable among high-risk groups of workers, namely, younger workers and those with low skill levels. If unemployment remains low because the number of discouraged workers is rising, that's not a good sign for the labor market.

Fifth, *indicators of labor market slackness are at high levels*. Table 2 shows three alternative measures of labor market slackness. Overall unemployment rates are higher now than at the beginning of the 2001 recession, but slightly lower than at the beginning of the 1990 recession. Long-term unemployment measures the number of workers whose unemployment spell has lasted 27 weeks or longer. Long-term unemployment is currently quite high, with almost 1% of the workforce in long-term unemployment in March 2008.

The standard unemployment rate measures those who actively looked for work. The Bureau of Labor Statistics also computes a measure of those they call "marginally attached," which are those who want a job and have recently looked for a job, but are currently not looking because jobs are so scarce. They also measure those who are working only part-time because of economic reasons, the so-called 'involuntary part-time workers.' If one expands the labor force to include marginally attached workers, and looks at the share who report themselves as either unemployed, marginally attached, or involuntarily working part-time, this is 9.1% of the labor force in March 2008, shown in Table 2. In March 2001, the beginning of the last recession, this number was only 7.3%.

Table 2

Alternative Measures of Labor Utilization

	Unemployment Rate		
	Mar-08	Mar-01	July-90
Official Unemployment Rate	5.1	4.3	5.5
Long-Term Unemployment Rate [1]	0.8	0.5	0.5
Total unemployed + marginally attached workers + employed part-time for economic reasons, as a percent of civilian labor force + marginally attached workers [2]	9.1	7.3	N/A

Source: U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov/home.htm

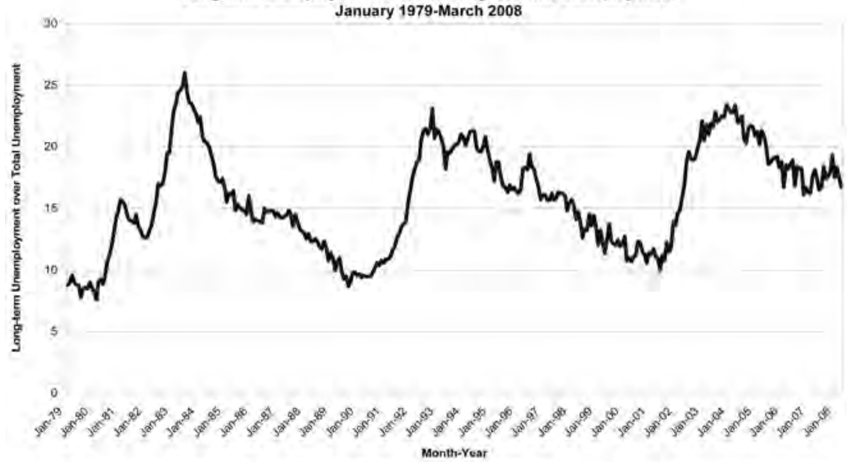
Notes: July 1990 and March 2001 are the beginning months of the last two recessions, according to the Business Cycle Dating Committee of the National Bureau of Economic Research; March 2008 is the most recent month for which data is available. All reported data are seasonally adjusted.

[1] Share of labor force that has been unemployed for 27 weeks or more.

[2] Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. (Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not currently looking for a job.) Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

Figure 4 shows long-term unemployment as a share of overall unemployment. As of March 2008, 16.7% of the unemployed had been unemployed for more than a half year. This is substantially higher than in 1990 (at 12.9%) or 2001 (at 11.1%). This suggests that a substantial fraction of those who lost jobs in 2007 are having serious difficulties finding reemployment.

Figure 4.
Long-term Unemployment as a Percentage of Total Unemployment, January 1979-March 2008



Source: U.S. Department of Labor, Bureau of Labor Statistics, http://www.bls.gov/home.htm.
Notes: Employment data are seasonally adjusted. Long-term unemployment defined as the number of unemployed workers out of work for 27 weeks or more as a percentage of the civilian labor force.

Do Extended Benefits Make Sense in the Current Labor Market?

If you believe the U.S. economy is entering a serious economic slowdown, unemployment rates are likely to increase steadily in the months ahead. Should we enact extended benefits now or, as in past recessions, wait for the unemployment rate to rise further? Even adjusting for population shifts, the unemployment rate is still lower than it was when extended benefits were put in place in past years. This might argue for waiting.

I would recommend an extended benefits bill for two primary reasons. First, the unusually high rates of long-term unemployment in the current economy suggest that a growing share of the unemployed who receive unemployment benefits will exhaust them without finding a job. Extended benefits can particularly assist long-term unemployed workers who are having difficulty finding jobs.

Second, I believe that we waited too long in past recessions. Waiting until after a recession has ended to enact extended benefits makes little sense. We know that unemployment rates are a lagging indicator. Given the serious problems signaled by many economic indicators, there is every reason to believe that labor market problems will rise steadily in the months ahead. We should take proactive measures to protect workers who become unemployed, rather than waiting until the problem has grown much larger.

Let me respond to two concerns often raised with regard to extended benefits. Unemployment Insurance is received by only a minority of the unemployed, and the share receiving UI has been falling in recent years. Only 34% of the unemployed received UI at the end of 2007 (U.S. Department of Labor, 2007). For the many unemployed who are not eligible or who do not take unemployment benefits, extended UI benefits will have little effect on their economic situation.

I would note that those who face long-term unemployment are much more likely to be eligible for and to receive UI. In part this is because a higher share of the long-term unemployed are displaced workers, who lose jobs due to plant closures or large-scale layoffs. Virtually all of these workers are eligible for unemployment insurance and many of them receive information encouraging them to apply. A recent study by CBO notes that more than 60% of those in long-term unemployment spells receive UI benefits (CBO 2007). This is the group most likely to benefit from extended benefits.

(Of course, the very low receipt of UI among the unemployed is an important issue, but beyond the scope of this morning's hearing. In the longer run, reform of the entire UI program is necessary if you want more unemployed workers to have access to an economic cushion when they lose their jobs.)

Another concern about extending UI benefits focuses on the unequal distribution of unemployment across the states. Some states have very high unemployment at present, in excess of 6%, particularly some of the upper Midwestern states like

Michigan or Ohio. Other states have relatively low unemployment rates, below 3%. If long-term unemployment is concentrated in high unemployment states, it might make sense to limit extended benefits only to states with particularly high unemployment rates.

Unfortunately, long-term unemployment is not particularly concentrated in the high unemployment states. Long-term unemployment data by state is not reported by the BLS, but these numbers can be calculated. Using data provided by the Economic Policy Institute for the year 2007, Table 3 groups the states in four groups. The top group is the five states with the highest rates of unemployment. These states contain about 10% of the labor force, but 13% of the unemployed. The share of long-term unemployed in these states is 15%, quite close to their share of overall unemployment. This means that long-term unemployment is not disproportionately concentrated in high-unemployment states. Indeed, if you provided extended unemployment benefits only to these high-unemployment states, 85% of the long-term unemployed would not benefit.

The bottom of Table 3 shows the 24 states with the lowest unemployment rates. These states constitute 53% of the labor market, and 47% of the unemployed. Among the long-term unemployed, 46% are in these lower-unemployment states. In short, concentrating extended benefits only on high unemployment states will not help the vast majority of long-term unemployed, who are present in all states. If we were to focus extended benefits on a small group of high unemployment states, we would be denying assistance to the majority of the long-term unemployed.

Table 3

National Labor Force and Unemployment Shares Grouped by State Unemployment Levels, 2007

	Share of Labor Force (percent)	Share of Unemployed (percent)	Share of Long-term Unemployed (percent)
5 states with highest unemployment rates (5.6% <=UR<=7.2%)			
Michigan, Mississippi, Alaska, South Carolina, Ohio	9.7	13.1	15.0
5 states with second highest unemployment rates (5.0% <=UR<=5.5%)			
Kentucky, California, Arkansas, Oregon, Rhode Island	15.8	18.3	16.5
10 states with the next highest unemployment rates (4.6% <=UR<=5.0%)			
Missouri, Illinois, Wisconsin, Nevada, Tennessee, North Carolina, Maine, West Virginia, Minnesota, Connecticut	18.4	19.1	20.8
24 states with the lowest unemployment rates (2.6% <=UR<=4.5%)			
Washington, New York, Massachusetts, Indiana, Pennsylvania, Georgia, Texas, Oklahoma, New Jersey, Kansas, Florida, Vermont, Louisiana, Iowa, Colorado, Arizona, New Hampshire, Maryland, Alabama, Delaware, Virginia, South Dakota, Nebraska, Hawaii	52.9	47.4	46.3

Sources: Annual labor force and unemployment data by state published by the Department of Labor, Bureau of Labor Statistics, *Local Area Unemployment Statistics (LAUS)*. Available at http://www.bls.gov/LAU/. Long-term unemployment data comes from an Economic Policy Institute (EPI) analysis of Current Population Survey data, Economic Snapshots: "Extending unemployment benefits stimulates economic and helps workers." January 30, 2008. Available at http://www.epi.org/content.cfm/webfeatures_snapshots_20080130.

Notes: Long-term unemployment data available for 44 states only. Missing long-term unemployment data for Idaho, Utah, Wyoming, Montana, North Dakota, and New Mexico due to small sample size. National shares do not total to 100 as a result of these omissions.

Conclusions

Given all of these facts, now is the time to enact extended unemployment benefits. This will assist the long-term unemployed as they continue to search for work. The unusually high share of long-term unemployed workers at this relatively early stage in the economic slowdown is a warning sign; history suggests these numbers will grow as the recession affects more and more jobs. Waiting for the unemployment rate to rise higher before we act would be a mistake.

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Chairman MCDERMOTT. Thank you very much.

Dr. Shierholz, who is an economist from the Economic Policy Institute. Dr. Shierholz?

STATEMENT OF HEIDI SHIERHOLZ, LABOR MARKET ECONOMIST, ECONOMIC POLICY INSTITUTE

Dr. SHIERHOLZ. Good morning, Chairman McDermott, Ranking Member Weller, and distinguished Members of the Subcommittee.

My name is Heidi Shierholz and I am a labor market economist at the Economic Policy Institute. I am delighted you are holding a hearing on this urgent issue of extending unemployment insurance benefits, and I appreciate the opportunity to share my views.

As Dr. Blank said, the unemployment rate at 5.1 percent in March is not at a historically high level, but it is higher than average for the beginning of a recession. The unemployment rate at the start of the last ten recessions averaged 4.7 percent.

The fact is, as she mentioned, the unemployment rate is a lagged indicator of an economic slowdown with low levels at the beginning of the recession and steep increases during a recession.

In this testimony, I will present evidence about why the current unemployment rate in no way precludes an immediate extension of UI benefits, and in fact, the analysis I will give of historic and projected trends in long term unemployment along with other key economic indicators strongly suggests that immediate action is warranted.

I will start by focusing on long term unemployment, which we’ll define as the share of the unemployed who have been unemployed long term, and that is a crucial measure in this context because six months is when most workers exhaust their UI benefits.

Currently, long term unemployment is extremely high given where the unemployment rate is. Over the course of the last 60 years, when the unemployment rate was around where it is right now, long term unemployment averaged 10.5 percent.

In other words, historically, when we are in a situation where we are right now, 10.5 percent of the unemployed were unemployed long term. Over the current business cycle, that number is 18.5 percent.

In other words, many more workers are stuck in long term joblessness right now than would be expected given the unemployment rate.

It also shows that the unemployment rate alone is insufficient in capturing just how difficult it is for many workers to find a job in the current labor market.

As we both mentioned, unemployment rates are lagged indicators of an economic slowdown, and with the March employment report showing job losses for the third straight month, it is very likely that we have entered into a potentially severe economic downturn, so the question arises how many more long term unemployed workers do we expect to see before the economy turns up again.

To address this question, we used unemployment projections from Goldman Sachs to project long term unemployment through the end of 2009, and what we project is that by the end of 2009, 21 percent of the unemployed will be long term unemployed. That is 1.4 percent of the total labor market or 2.1 million workers.

That 2.1 million figure is up 64 percent from the 1.3 million unemployed that we see right now.

I will end this testimony with a brief comparison of various economic indicators today to when the decision was first made to extend UI benefits during the last recession in February 2002.

What we find is that according to a host of key economic indicators, the economy is currently at least as bad off as it was then. Both GDP and median real wages are now growing at a much slower rate than they were at that time. In fact, median real wages have actually declined 1.2 percent over the last year.

The exhaustion rate, which is the proportion of UI claimants who have exhausted all of their UI entitlement, is the same now as it was then.

There is a lower employment rate right now. There is a lower labor force participation rate right now, a higher percent of the unemployed are long term unemployed, and crucially, the same percent of the labor force is long term unemployed right now as it was when Congress first enacted benefits at the start of the last recession or in February 2002.

What these figures tell us is that the economy is in at least as precarious a position as it was when Congress extended benefits during the last recession.

Long term unemployment is already a problem that merits prompt action and it is only expected to get worse as the economic downturn deepens.

I strongly urge Congress to extend unemployment benefits immediately. I would like to just add at the end that it is important to note that extending benefits will be effective on two fronts.

First, it will get support to those families who have lost the most in the economic slowdown, and second, it will provide an important and effective economic stimulus.

The Congressional Budget Office has estimated that a national UI extension program would put more than $1 billion per month in hands of the long term jobless and their families.

Furthermore, other estimates show that one dollar of unemployment insurance boosts the economy by $1.73. This is due to the fact that the long term unemployed who are likely to have depleted

their savings tend to immediately spend their entire benefits on necessities found in their local economy.

Extending UI benefits would give the economy a more than $1.7 billion boost per month at a time when it needs it the most. Immediately extending unemployment benefits is not only the right thing to do for families of the long term jobless in this demonstrably slow and slowing labor market, it is also very smart economic policy.

Thank you, and I would be happy to answer any questions.

[The statement of Heidi Shierholz follows:]

Statement of Heidi Shierholz, Ph. D., Economist, Economic Policy Institute

Good Morning Chairman McDermott, Ranking Member Weller, and distinguished members of the Subcommittee on Income Security and Family Support. My name is Heidi Shierholz and I am an economist who studies labor market issues at the Economic Policy Institute. I am delighted that you have chosen to hold a hearing on the urgent issue of extending unemployment insurance and I appreciate the opportunity to appear before you today to share my views.

The unemployment rate—at 5.1% in March—is not at an historically high level, but it is higher than average for the beginning of a recession. The unemployment rate at the start of the last ten recessions—going back 60 years—averaged 4.7%, including 4.3% at the start of the last recession in March 2001. The fact is that the unemployment rate is naturally a lagged indicator of an economic slowdown, exhibiting low levels at the beginning of a recession and sharp increases during a recession. In what follows I will present evidence on why the current unemployment rate should in no way preclude the immediate extension of unemployment insurance benefits. To the contrary, my analysis of historical and projected trends in long term unemployment, as well as a comparison of where relevant economic indicators are today compared to when Congress first extended benefits during the last recession, strongly indicate that an immediate extension is warranted.

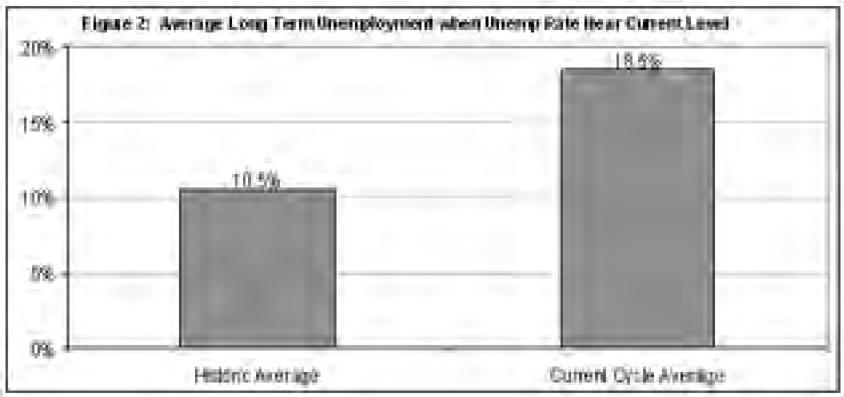
Long Term Unemployment is Unusually High

Long term unemployment—defined here as the share of the unemployed who have been jobless for more than six months—is a crucial measure in this context because six months is the mark at which most workers exhaust their regular unemployment insurance benefits. Currently, long-term unemployment is unusually high given the unemployment rate. **Figure 1** presents the unemployment rate and long-term unemployment over the last forty years. Two things pop out when looking at this plot: first, the two series follow a similar cyclical pattern, peaking after the end of each recession (recessions are shaded in the plot), and second, long term unemployment also follows a generally upward trend and is currently much higher relative to the unemployment rate than in the past. The fact that a much higher portion of the unemployed have been unemployed long-term shows that the unemployment rate alone is insufficient in capturing how difficult it is in today's labor market for many people to find a job.

Figure 1: The Unemployment Rate and Long-Term Unemployment

Source: Author's analysis of Bureau of Labor Statistics data.

Historically, when the unemployment rate was near where it is now, long term unemployment averaged 10.5%. During the current business cycle, however, when the unemployment rate was near current levels, long term unemployment averaged 18.5%.[1] **Figure 2** shows the dramatic difference in long term unemployment in the current labor market compared to the historic average. Taken together, figures 1 and 2 show that a great many more workers are stuck in long-term joblessness than would be expected given the relatively low unemployment rate.



Source: Author's analysis of Bureau of Labor Statistics data.

How Many More Long-Term Unemployed Can We Expect During the Current Economic Slowdown?

As mentioned above, unemployment rates are lagged indicators of an economic slowdown. With the March employment report showing job losses for the third straight month, we believe we have entered into a potentially severe economic downturn, and an important question to consider is how many workers are expected to experience long-term unemployment before the economy turns up again. To address this question, we used unemployment projections from Goldman Sachs, labor force projections from the Congressional Budget Office, and a simple statistical model to project long-term unemployment through the end of 2009.[2] **Figure 3** presents the projections. We project that by the end of 2009, 20.8% of the unemployed will be unemployed long-term. The number of long-term unemployed would be 1.4% of the total workforce, or 2.1 million workers—up 64% from the 1.3 million long-term unemployed today.

[1] The historic average includes data from 1948 up to (but not including) the current business cycle. An employment rate "near" where it is now means within a quarter of a percent.

[2] We regressed the long term unemployment rate on the unemployment rate and the unemployment rate lagged one quarter. All variables in the model were first-differenced. This produced an adequate model with white noise residuals and a good fit (DW: 1.62, R-sq: 0.64). We then forecasted the long term unemployment rate through 2009 using unemployment rate projections from Goldman Sachs. Finally, using the Goldman Sachs forecasts of the unemployment rate, our forecasts of the long term unemployment rate, and CBO forecasts of the labor force, we backed out long term unemployment both in levels and as a percent of the unemployed.

Source: Author's analysis of Bureau of Labor Statistics data. For information on projections see Footnote 2.

Highly Educated and Experienced Workers are Disproportionately Hard-Hit by Long-Term Unemployment

With so many workers either in or headed for long-term unemployment, the question arises—who are these workers? An analysis of microdata from the Current Population Survey, the same data used to calculate the official unemployment numbers, illustrates the characteristics of these workers. **Table 1** presents shares of the total unemployed (column 1) and the long-term unemployed (column 2) by subgroup for January 2008, the latest date these data are available. Comparing these two columns shows which subgroups of jobless workers are over- and under-represented among the long-term unemployed. For example, while workers aged 45 and over make up 28.4% of the unemployed, they make up 36.7% of the long-term unemployed. In other words, these experienced workers are overrepresented among the long-term unemployed; if unemployed, workers aged 45 and over are unusually likely to be unemployed long-term. On the other hand, while workers aged 16–24 make up 32.0% of the unemployed, they make up only 24.8% of the long-term unemployed, meaning that young workers are underrepresented among the long-term unemployed. Education subgroups paint a similar picture: while only 13.5% of workers with a bachelor's degree or more are unemployed, 16.3% are long-term unemployed, meaning that the most educated workers are overrepresented among the long-term unemployed. The reverse is true for less-educated workers, who are underrepresented among the long-term unemployed. When looking at the breakdowns by occupation, we find a similar story; white collar workers are overrepresented among the long-term unemployed, and blue collar workers are underrepresented. This table shows that even the most educated and experienced workers are not sheltered from the effects of the slowing economy on the labor market.

Table 1: Shares of Unemployed and Long Term Unemployed in Jan '08

	Share of Total Unemployed	Share of Long Term Unemployed	Difference
All groups	100%	100.0%	0.0%
Age			
16–24	32.0%	24.8%	−7.2%
25–44	39.6%	38.5%	−1.0%
44+	28.4%	36.7%	8.2%
Education			
High school or less	62.6%	60.4%	−2.2%
Some college	23.9%	23.3%	−0.6%
Bachelor's degree or more	13.5%	16.3%	2.8%
Occupation			
White collar	39.0%	43.5%	4.5%

Table 1: Shares of Unemployed and Long Term Unemployed in Jan '08—Continued

	Share of Total Unemployed	Share of Long Term Unemployed	Difference
Services	23.2%	23.5%	0.3%
Blue collar	37.7%	32.9%	−4.8%

Source: Author's analysis of Bureau of Labor Statistics data.[3]

March 2002 was the first time unemployment insurance benefits were extended during the last recession. We end this testimony with a brief look at various economic indicators available when that decision was made (February 2002) compared to the same indicators today. These figures are presented in **Table 2**. What we find is that according to a host of key economic indicators, the economy is currently *at least* as bad off as it was in February 2002. Both GDP and median real wages are now growing at a much slower rate than they were then—in fact median real wages declined 1.2% over the last year. Also, the Exhaustion Rate—the proportion of claimants who have exhausted all of their unemployment insurance entitlement—is the same now as it was then. Furthermore, a higher percent of the population was employed in February 2002 than now, a higher percent of the population was participating in the labor force, and a lower percent of the unemployed had been unemployed long-term. ***And crucially, the percent of the labor force that is long-term unemployed is the same today as it was when Congress extended unemployment insurance benefits during the last recession.*** These figures tell us that, despite the currently low unemployment rate relative to when extensions were first enacted during the last recession: 1) the economy is in at least as precarious a position as it was at that time, and 2) an immediate policy response is now warranted.

Table 2: Economic indicators from February 2002 and today.

	February 2002	March 2008
GDP Growth	1.6%	0.6%
Median Wage Growth	1.9%	−1.2%
Unemployment Insurance Exhaustion Rate	36%	36%
Employment to Population Ratio	63.0%	62.6%
Labor Force Participation Rate	66.8%	66.0%
Long Term Unemployment	14.9%	16.7%
Percent of Labor Force Long Term Unemployed	0.8%	0.8%
Unemployment Rate	5.7%	5.1%

Source: Author's analysis of data from the Bureau of Labor Statistics, the Bureau of Economic Analysis, and the Department of Labor's Unemployment Insurance Chartbook. GDP Growth is annualized quarterly growth from 2001Q4 and 2007Q4. Median Wage Growth is annual growth of usual weekly earnings for full time wage and salary workers from 2001Q4 and 2007Q4.

Conclusion

Despite the current relatively low unemployment rate, long term unemployment is already a problem that merits prompt action and it is only expected to get worse as the economic downturn deepens. For individuals seeking work in this economy, the search is likely to be long, putting an enormous strain on the families of the over two million workers projected to be long-term unemployed in the next 15 months. We strongly urge Congress to extend unemployment benefits immediately.

It is important to note that extending UI benefits would be effective on two fronts. First, it would support the families who have lost the most in the current economic slowdown, and second, it would provide an important and effective economic stimulus. The Congressional Budget Office has estimated that once up and running, a national UI extension would put more than one billion dollars per month in the hands of jobless workers and their families. Furthermore, Mark Zandi of Economy.com estimates that every dollar spent on unemployment insurance boosts the

[3] White collar occupations are management, business, financial, professional, sales, office, administrative support, and related occupations. Blue collar occupations are farming, fishing, forestry, construction, extraction, installation, maintenance, repair, production, transportation, and material moving occupations.

economy by $1.73.[4] The effectiveness of the UI stimulus is due to the fact that the long-term unemployed, who are likely to have depleted their savings, tend to quickly spend essentially every dollar they receive on necessities found in their local economy. Thus, extending UI benefits would give the economy a more than 1.7 billion dollar boost per month at a time when it needs it the most. Immediately extending unemployment benefits is not only the right thing to do for the families of the long-term jobless in this demonstrably slow and slowing labor market, it is also very smart economic policy.

Thank you and I am more than happy to answer any questions you may have.

Chairman MCDERMOTT. Thank you very much. I neglected to say both of your testimonies will be entered into the record in full. Thank you for condensing it to 5 minutes.

Mr. Emsellem, who is Co-Policy Director at the National Employment Law Project: you are on.

STATEMENT OF MAURICE EMSELLEM, POLICY DIRECTOR, NATIONAL EMPLOYMENT LAW PROJECT

Mr. EMSELLEM. Chairman McDermott and Members of the Subcommittee, thank you for this opportunity to testify on the subject of unemployment in today's struggling economy, and the urgent need to extend unemployment benefits.

You have heard testimony about the new realities of unemployment in today's economy, especially the problem with long term joblessness, which underscores the immediate need to extend unemployment benefits.

In my remarks, I will focus more specifically on the increase in unemployment claims and the vast numbers of workers exhausting their benefits compared to prior recessions, and the critical role that extended unemployment benefits play in boosting the nation's economy, especially those communities hardest hit by the recession and housing crisis.

Every day we at the National Employment Law Project hear from more and more families across the country who now find themselves jobless through no fault of their own, struggling to keep their homes and pay the sky rocketing costs of food and gas, all on an average unemployment check of $290 a week.

We know from polling and State surveys that one in four of these unemployed families will be forced to leave their homes or move in with family and friends, and that they spend more than 40 percent of their limited unemployment benefits just to cover their housing costs. The rest of the unemployment check is spent on other basic necessities including transportation, food and health care.

The ranks of these workers struggling to get by on their limited State unemployment benefits have increased significantly in the past year.

This week, 2.9 million Americans were collecting State unemployment benefits, which exceeds the number who were collecting benefits even after the surge in unemployment claims after Hurricane Katrina.

[4] Congressional Budget Office, "Options for Responding to Short-Term Economic Weakness", January 2008, and M. Zandi, "Assessing President Bush's Fiscal Policies," Economy.com, July 2004.

Over the next 12 months, that means that more than three million workers will exhaust their jobless benefits if Congress does not extend their limited 26 weeks of assistance, and that does not include the more than 800,000 workers who have already exhausted their State benefits in the past year and are still looking for work.

Despite the plight of these four million Americans, this week the Bush Administration and others have argued that now is not the time to extend jobless benefits, that the labor market is still in good shape compared to prior economic downturns.

In addition to the issues raised by the earlier testimony, I would like to point out that the Administration's position ignores the fact that far more workers are also exhausting unemployment benefits today compared to prior recessions.

Thirty-six percent of workers are now running out of their State unemployment benefits without finding new work. That compares with 32 percent when the last recession began in 2001 and 28 percent when the 1990 recession began.

While the total number of workers who have collected unemployment benefits in the past 12 months is comparable to the last two recessions, the number of workers exhausting their benefits in the past year, a staggering 2.7 million people, exceeds both of the past two recessions by over half a million workers.

Contrary to the Administration's position, now is the time to extend benefits.

The unemployment system was not only set up to help families cope with the hardships of unemployment and find new work, it was also created as an insurance policy to help stimulate the economy.

The program was designed to build reserves in the Federal unemployment trust funds during good economic times and to get hard cash circulating right away during hard times. That is exactly what the program has done.

According to a major study of several prior recessions, unemployment benefits boost economic growth by $2.15 for every dollar of benefits circulating in the economy.

Now with consumer confidence falling to record lows, it is critically important to send the message not just to unemployed families but to their friends and neighbors as well, that Federal help is on the way.

Thus, this Congress should act now to avoid the experience of the 1991 recession when, as economist Mark Zandi argues, the serious slump in consumer confidence was due in part to the refusal to immediately extend benefits by the first President Bush.

Once more, an immediate extension of jobless benefits will go a long way to help prevent a more serious housing slump, which has already devastated whole communities.

As I mentioned, unemployed families spend a disproportionate share of their benefits to pay their mortgage. In fact, a national study found that unemployment benefits reduced the chances that a worker will be forced to sell the family home by one-half.

Again, the sooner the extension is in place, the greater the impact it will have to support the struggling housing market.

Finally, Chairman McDermott and Congressman English, we want to express our strong support for the bill you have introduced

to extend benefits. We believe that it provides immediate relief to workers and that it will also boost the economy while giving Congress the discretion to re-evaluate at the end of the year whether more help is needed.

Lastly, I would just like to comment briefly on Congressman Weller's bill, if I may, and I just have a few more seconds to go.

I would like to mention first that the bill only provides 5 weeks of benefits to selected states that can only afford to pay 50 percent of the benefits, and never in the history of the unemployment program has there ever been a temporary extension that only applied to some states, not the whole country.

More to the point, if you take a look at the bill, right now there is no State that qualifies for extended benefits under Congressman Weller's bill. In fact, Michigan, with an unemployment rate of over seven percent for the past 19 months does not qualify either.

There are serious problems with that approach as well, and that is why we favor your bill, Chairman McDermott.

Thank you.

[The statement of Maurice Emsellem follows:]

Testimony of
Maurice Emsellem
National Employment Law Project

Before the U.S. House of Representatives,
Committee on Ways & Means,
Subcommittee on Income Security & Family Support

April 10, 2008

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Testimony of Maurice Emsellem
National Employment Law Project
Before the U.S. House of Representatives, Committee on Ways & Means,
Subcommittee on Income Security & Family Support
April 10, 2008

Chairman McDermott and members of the Committee, thank you for this opportunity to testify on the subject of unemployment in today's struggling economy and the need for federal action to extend jobless benefits to help stimulate the economy and serve the growing number of Americans who are actively looking for work for much longer periods of time.

My name is Maurice Emsellem, and I am the Policy Co-Director for the National Employment Law Project (NELP), a non-profit research and advocacy organization that specializes in economic security programs, including unemployment insurance (UI), Trade Adjustment Assistance (TAA) and the workforce development system. We have a long history serving families hard hit by economic downturns by helping them access their benefits and promoting innovative state and federal policies that deliver on the nation's promise of economic opportunity.

As summarized below, our testimony today discusses the importance of extending unemployment insurance benefits to boost the economy overall and to provide critical support to the working families most harshly affected by the downturn.

- The labor market has taken a hard hit as a result of the economic downturn, adding one million new workers to the ranks of the unemployed in the past year and recently generating over 400,000 new unemployment claims in one week (an increase of 26 percent in the last year).
- Compared to prior recessions, a far greater share of workers are unemployed and actively looking for work for much longer periods of time, thus underscoring the need for extended jobless benefits.
- Extended jobless benefits immediately boost the economy (by a factor of $2.15 for every dollar of benefits circulating) while also providing targeted relief to struggling home owners and those communities hardest hit by the foreclosure crisis.
- Unless Congress and the President act to extend unemployment benefits, an estimated three million jobless workers will run out of their limited 26 weeks of state benefits over the coming year, with neither jobs nor federal benefits to rely on to support themselves and their families. Another 1.34 million workers have already exhausted their state benefits in the past six months.
- The Bush Administration's claim that the unemployment rate is not high enough to justify an extension of jobless benefits fails to recognize that the rate has become a lagging indicator of economic recovery. Thus, waiting to extend benefits until after the unemployment rate increases further is akin to closing the door after the recession horse has already left the barn.

The Drumbeat of Recession News

The telltale signs of a national recession are now impossible to ignore, especially in light of the latest Labor Department report documenting three successive months of job losses. The declining job market prompted Federal Reserve Chairman Ben Bernanke to observe for the first time last week that a "recession is possible."[1]

What distinguishes the current economic downturn from prior recessions is the combined and continued uncertainty of the fallout from the sub-prime mortgage collapse, the resulting credit crunch, and the surge in energy prices, none of which show any significant signs of improvement. Given these compelling concerns, many economists are anticipating a more prolonged economic downturn compared to the 2001 recession.

- <u>The Sub-Prime Mortgage Crisis Escalates</u>: Initial foreclosure notices now surpass new home sales by three to one, with 2.2 million foreclosures filed in 2007 and an estimated 3.5 million expected by 2010. While earlier estimates put the losses associated with the sub-prime crisis at $50 billion to $100 billion, a recent report estimates losses will now exceed $400 billion.[2]

- <u>Financial Institutions Restrict Credit:</u> As a result of the exposure due to the sub-prime mortgage crisis, banks and other lenders are now projected to limit their lending and other assets by $2 trillion, thus reducing economic growth by one to 1.5 percentage points.[3]

- <u>Energy Costs Keep Surging, Raising Consumer Prices</u>: Oil prices recently reached an all-time high of $104 a barrel, thus surpassing the prior record set during the oil crisis of the 1980s. A gallon of gas now costs a record $3.28, up 93 cents from the same time last year.[4] As a result of the surge in energy prices, consumer prices increased by 4.1 percent in the past year, the largest increase in 17 years. Meanwhile, workers' real earnings are down in the past year by 1.4 percent.[5]

- <u>Service Industry Now Hard Hit, Not Just Manufacturing</u>: The service sector became the latest casualty of the economic downturn when the index of non-manufacturing business activity recently fell to its lowest level since October 2001.[6] At the same time, manufacturing continued its devastating slide, shrinking at the fastest pace in five years, according to the Institute for Supply Management's latest factory index.[7]

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[1] Excerpts of testimony from Federal Reserve Chairman Ben S. Bernanke before the U.S. Congress Joint Economic Committee, *Los Angeles Times* (April 2, 2008), available on-line at http://www.latimes.com/business/la-fi-bernankebox3apr03,1,7255131.story.
[2] "Study Finds Wider Impact of Mortgage Losses," *Wall Street Journal* (March 1, 2008), A-2.
[3] *Id.*
[4] For gas prices, see http://money.cnn.com/2008/02/24/news/economy/gasprices_0224.ap/index.htm.
[5] "Toxic Economic Mix Feared," *Associated Press* (March 2, 2008).
[6] "Recession Fears Intensify: Service-Sector Index Hits Six-Year Low; Further Rate Cuts Seen as Dow Drops 2.9%," *Wall Street Journal* (February 6, 2008).
[7] "U.S. Economy: Manufacturing, Construction Spending Decline," *Bloomberg News* (March 3, 2008).

- Consumer Confidence Falls to 16-Year Low: These sobering economic forces, combined with the declining job market described below, pushed consumer confidence down to a 16-year low in February 2008.[8] Consumer spending, which represents more than two-thirds of the Gross Domestic Product (GDP), has been flat as incomes grow more slowly because of the declining job market.[9]

The Labor Market is Hard Hit by the Recession

If there was any lingering doubt that a national recession was upon us, the latest jobs report put that question to rest when the job market lost another 80,000 jobs in March, the largest monthly decline in five years. As a result, working families are bracing for more hard times amid troubling signs that layoffs will rise at the same time the nation's economy is failing to create an adequate supply of jobs for all those who want to work.

Major Layoffs, Compounded by Slow Job Growth: For the third straight month, the economy lost jobs in March 2008, with the labor market down by 232,000 jobs since employment peaked in December. The job losses cut across the economy, but construction and manufacturing are taking an especially hard hit. The construction industry lost nearly 250,000 jobs in the past year, and the manufacturing sector suffered the loss of another 48,000 jobs last month, the most since October 2006. The March jobs numbers followed another ominous Labor Department report, which announced in March that mass layoffs the preceding month were at their highest February level since 2003.

While the latest jobs report represents a significant new benchmark of economic distress, the fact is that job growth has been remarkably anemic since the last recession ended in November 2001. Indeed, after the 2001 recession, it took 46 months for employment to recover to pre-recession levels, compared with 31 months after the 1990s recession ended. Prior to the 1990s, on average, jobs returned to pre-recession levels after just 21 months.[10] Thus, it is much harder for unemployed workers to find work in today's "lean" economy, while they are competing for more limited job openings.[11] According to the Department of Labor's most recent report of job openings (Job Opening Labor Turnover Survey), there is now one job available for every two people actively seeking work (1.93).[12]

Today's Unemployment Outpacing the Last Recession: The official unemployment rate in March 2008 was higher (at 5.1 percent) than in March 2001 (4.3 percent), when the last recession began. Over the past year, the ranks of the unemployed increased by one million workers, with 7.8 million people unemployed and actively seeking work in March 2008. In this recession, especially large numbers of workers have also found themselves discouraged from looking for work or they have settled for part-time work because they could not find a full-time job. Taking into account all these workers, the "hidden" rate of unemployment published by

[8] Reuters/University of Michigan Surveys of Consumers.
[9] "U.S. Michigan Consumer Index Falls to 16 Year Low," *Bloomberg News* (February 29, 2008).
[10] Stettner, Allegretto, "The Rising Stakes of Job Loss: Stubborn Long-Term Unemployment Amid Falling Unemployment Rates" (National Employment Law Project/Economic Policy Institute, 2004).
[11] "Is a Lean Economy Turning Mean: Why It's Now Harder to Find a Job," *New York Times* (March 2, 2008).
[12] U.S. Department of Labor Bureau of Labor Statistics, "Job Openings and Labor Turnover: January 2008." available online at http://www.bls.gov/newsw.release/pdf/jolts.pdf

the Labor Department was 9.1 percent in March 2008, up significantly from 8.0 percent just one year earlier. By comparison, it took eight months for the hidden unemployment rate to surpassed 9 percent after the last recession began.

Recent Surge in Unemployment Claims: Finally, unemployment claims have reached their highest levels since before the surge in claims resulting from Hurricane Katrina, thus reinforcing the point that layoffs have already taken a major toll on the nation's workforce. For the week ending March 22nd, the total number of people collecting unemployment benefits in the U.S. reached 2.86 million (as measured by the 4-week average), the most since September 2004. Moreover, weekly unemployment claims recently surpassed 400,000, the highest number of claims filed since July 2003, and an increase of 26 percent in the past year.

The New Realities of Long-Term Joblessness

The overall picture of jobs and joblessness in today's economy is bleak for America's working families, and points to the need for extended unemployment benefits to boost economic growth. Further underscoring the need for a federal extension of jobless benefits, far more workers remain jobless after actively looking for work for an extended period of time lasting more than six months. These jobless workers and their families are struggling in a punishing economy to maintain their housing in the midst of the worst foreclosure crisis since the Great Depression and to pay skyrocketing costs for basic necessities, like food and gas.

No Comparison to Prior Recessions: In no uncertain terms, the problem of long-term joblessness is far greater today than at the beginning of the last two recessions.

- In March 2001, when the last recession began, the average worker was unemployed for 12.6 weeks before finding new work. And at the beginning of the preceding recession in July 1990, the average duration of unemployment was 11.9 weeks. In sharp contrast, the average duration of unemployment in March 2008 was 16.2 weeks.
- In March 2008, almost 1.3 million workers remained unemployed after actively looking for work for more than six months. That is almost twice the number of workers who were long-term unemployed in both March 2001 (696,000) and in July 1990 (688,000).
- In March 2008, the long-term unemployed accounted for 16.7 percent of all jobless workers, compared to 11.1 percent in March 2001. In July 1990, 11.9 percent of the unemployed were long-term jobless, and the proportion did not reach today's rate until 21 months later (in April 1992).

The Diverse Profile of the Long-Term Jobless: The unemployed who are looking for jobs for longer periods of time are an especially diverse group, although certain workers are over-represented in this category relative to their representation among the unemployed generally.

As detailed in Table 1, men account for 57 percent of the long-term unemployed, compared to 54 percent of all unemployed. While workers 45 and older make up 27 percent of all the nation's unemployed, they represent 37 percent of the long-term jobless. Although nearly two-

thirds of the long-term unemployed are White, African-Americans are over-represented among the long-term jobless (28 percent) compared to their share of the unemployed generally (21 percent).

Perhaps not surprisingly given the continued loss of well-paying manufacturing jobs to trade and globalization, manufacturing workers are also somewhat over-represented among the long-term unemployed relative to their share of all unemployed workers (12 percent of the long-term unemployed compared with 10 percent of all the unemployed). However, workers employed in other sectors are significantly represented among the long-term unemployed as well, including higher-paid workers employed in professional and business services (12 percent), and lower-paid workers employed in the wholesale and retail trade sector (15 percent).

Table 1: Demographic Characteristics of the Long-Term Jobless (2006 - 2007)

	Characteristics of All Unemployed	Characteristics of the Long-Term Unemployed
Gender		
Female	46%	43%
Male	54%	57%
Race*		
Black	21%	28%
Hispanic	16%	13%
Other	3%	4%
White	72%	65%
Age		
16 - 24	33%	23%
25-44	40%	41%
45 and over	27%	37%
Education		
Less than High School	26%	23%
High School Graduate	35%	37%
Some College	25%	24%
Bachelor's Degree or More	14%	16%
Industry**		
Construction	11%	9%
Manufacturing	10%	12%
Wholesale and retail trade	15%	15%
Financial activities	4%	5%
Professional and business services	12%	12%
Educational and health services	12%	12%
Leisure and hospitality	13%	12%

** Due to overlap in the Hispanic, Black, and White categories, the total exceeds 100 percent*
*** The total for industries listed is less than 100 percent because those four categories with statistically insignificant numbers were omitted.*
Source: U.S. Bureau of Labor Statistics (monthly data totaled for 2006-2007).

Jobless Benefits Boost the Economy and the Housing Market

Unemployment benefits provide one of the most effective means available to federal policymakers to immediately stimulate the economy and help prevent or forestall a more serious recession. In fact, a major study of several past recessions found that each dollar of unemployment insurance benefits boosts the nation's GDP by $2.15, and that at their peak, UI benefits saved an average of 130,000 jobs on an annual basis.[13] That is because the benefits are targeted directly to those communities hardest hit by the downturn. The money is quickly recycled through the economy when affected workers spend their benefits on basic goods and services.

As economist Mark Zandi emphasizes, unemployment benefits sustain consumer confidence and consumer spending, which is the backbone of today's economy. "The benefit of extending unemployment insurance goes beyond simply providing financial aid for the jobless, to more broadly shoring up household confidence. Nothing is more psychologically debilitating, even to those still employed, than watching unemployed friends and relatives lose benefits."[14] Mr. Zandi maintains that part of the serious slump in consumer confidence following the 1991 recession was due to the initial refusal of the first President Bush to immediately extend jobless benefits.[15]

In addition to bolstering consumer confidence and sustaining consumer spending, extending unemployment benefits will have a favorable impact on the home foreclosure crisis, widely viewed as the trigger for today's economic downturn. That is because families of jobless workers spend more of their unemployment benefits to cover the costs of their mortgages and rent than for any other household item. According to a state survey, 41 percent of expenditures paid for with unemployment benefits were applied to housing costs.[16]

Of special significance to the present housing crisis, another national study found that unemployment benefits reduced the chances that a worker will be forced to sell the family home by almost one-half.[17] Thus, jobless benefits provide targeted relief to struggling homeowners, in addition to the economy as a whole. After housing, unemployment benefits were spent primarily on transportation (14 percent), food (13 percent), loans (12 percent) and health care (6 percent). In addition, unemployment benefits sustain families during hard times by substantially reducing the likelihood that they will fall into poverty and helping them make the challenging transition to quality jobs with health care and other benefits.[18]

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[13] Chimerine, et al. "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades," U.S. Department of Labor, Unemployment Insurance Occasional Paper 99-8 (1999).

[14] Zandi, "Washington Throws the Economy a Rope" (January 22, 2008).

[15] According to Mr. Zandi, "The slump in consumer confidence in late 1991, after the 1990-91 recession, may well have been due in part to the first Bush administration's initial opposition to extending UI benefits for hundreds of thousands of workers. The administration ultimately acceded and benefits were extended, but only after confidence had waned. The fledging recovery sputtered and the political damage extended through the 1992 presidential election." *Id.*

[16] State of Washington, Employment Security Department, *Claimant Expenditure Survey, 2005* (January 2006).

[17] Gruber, "Unemployment Insurance, Consumption Smoothing, and Private Insurance: Evidence from the PSID and CEX," Advisory Council on Unemployment Compensation Background Papers, Vol. I (1995), at page 20.

[18] Stettner, Emsellem, "Unemployment Insurance is Vital to Workers, Employers and the Struggling Economy" (National Employment Law Project: December 5, 2002). Boushey, Wenger, "Finding the Better Fit: Receiving

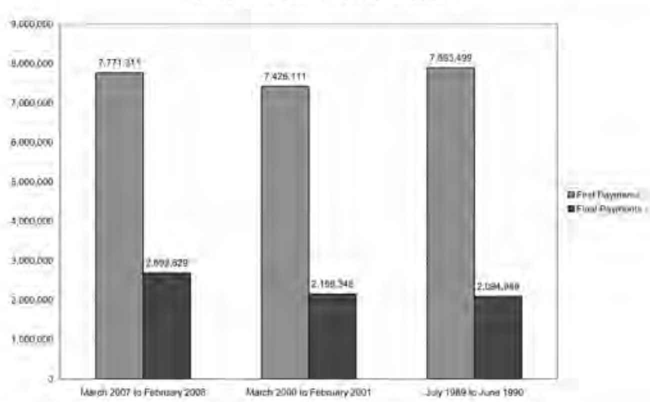
Three Million Workers Will Exhaust Their Jobless Benefits This Year Without Finding New Jobs If Congress Does Not Extend Federal Benefits

If Congress does not promptly extend jobless benefits, we conservatively estimate that three million workers will run out of their state unemployment benefits over the next twelve months with neither a new job nor extended benefits to help support them and their families. (Appendix, Table 2).[19] Another 1.34 million workers have already exhausted their state benefits in the past six months (from September 2007 to February 2008).

Corresponding to the rise in long-term unemployment, today's jobless workers are more likely to exhaust their limited 26 weeks of state unemployment benefits when compared to past recessions. Indeed, over the past year, 36 percent of jobless workers collecting state unemployment compensation exhausted their 26 weeks of benefits without finding jobs. That compares with 32 percent in March 2001, when the last recession began, and 28 percent in July 1990, when the preceding recession began.

The chart below helps illustrate the vast numbers of workers who are now exhausting their state unemployment benefits compared to prior recessions. Already, in the past year (from March 2007 to February 2008), 7.8 million workers have successfully filed for state unemployment benefits (called "first payments"). That is comparable to the numbers who received state unemployment during the 12 months proceeding the last two recessions. <u>However, 2.7 million workers exhausted their state benefits in the past year (called "final payments"), which exceeds both of the prior recessions by well over half a million workers.</u>

Jobless Claims Compared to Prior Recessions



Unemployment Insurance Increases Likelihood of Re-Employment with Health Insurance" (Economic Policy Institute: April 14, 2005).

[19] For the six months from March 2008 to August 2008, these estimates for each state take into account the actual number of claims filed by state during the prior six months multiplied by the state's <u>current</u> exhaustion rate. For the next six months (from September 2008 to February 2009), the state estimates assume a 26 percent increase in claims from the prior year, which is the <u>same</u> rate of increase as occurred from March 2007 to March 2008.

Federal Proposals to Extend Jobless Benefits

Congress has enacted a temporary extension of federal jobless benefits during each of the past several recessions. In 2002, three months after the recession officially ended, Congress extended jobless benefits by 13 weeks for all states (called the Temporary Extended Unemployment Compensation program, or TEUC), while providing an extra 13 weeks of federal support to certain states with unemployment rates that exceeded 6.5 percent.[20]

When the Senate took up an extension as part of the stimulus package enacted in January of this year, the initiative fell one vote short of the 60 needed to move the bill (Economic Stimulus Act of 2008). The Senate's measure was nearly identical to the March 2002 TEUC program. However, in contrast, prior federal extensions (including the 1991 and 1975 extension programs) were more generous, providing 20 to 26 weeks of extended benefits for all states, with extra weeks of benefits often available to states with especially high levels of joblessness.

In contrast to prior extensions, Congressman Jerry Weller has introduced legislation (H.R. 5688) that fails to extend benefits nationally in response to the recession. Never in the history of the program has there been a temporary extension of unemployment benefits that did not cover all states. Instead, the bill would offer just five weeks of benefits to "high unemployment" states provided these states can afford to pay for 50 percent of the benefits. Currently, no states would qualify for the program either because their unemployment rate has not reached the required 6-percent threshold or because the rate has not increased over the past two years as required by the bill.

Thus, even the three states with unemployment rates exceeding 6 percent (Alaska, Michigan, Mississippi) do not qualify because their rates have been consistently high over the past two years. For example, despite an unemployment rate above 7 percent for the past 19 months, Michigan does not qualify for the limited five weeks of benefits under Congressman Weller's bill. Moreover, the states with sustained high levels of unemployment are not in a position to pay for 50 percent of the extended benefits because their state unemployment trust funds have been depleted due to the economic downturn. Thus, Congressman Weller's bill would further compromise the state economies at a time when they need the federal support most.

Indeed, the federal system was specifically designed to generate reserves in the federal unemployment trust funds (funded by the federal unemployment tax of $56 per worker) to help boost the economy during tough times. As described by the bi-partisan Advisory Council on Unemployment Compensation, the objective of the system is the "accumulation of adequate funds during periods of economic health, thereby promoting economic stability by maintaining

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[20] The TEUC the program was limited to states with unemployment rates above 6.5 percent, plus the state had to have experienced a significant increase of unemployment in either of the past two years. As a result, while 14 states qualified for the full 26 weeks of TEUC benefits, they did so only for a few months before they "triggered off" the program because their unemployment rate did not continue to rise as required by the 2002 federal law. National Employment Law Project, "Nation's Highest Unemployment States Face Major Cuts in Unemployment Benefits Due to Flawed Extension Program," (November 4, 2003).

consumer purchasing power during economic downturns."[21] The federal unemployment trust funds have now accumulated nearly $35 billion in reserves, and they generate another $6 billion to $7 billion annually. Thus, there are ample reserves to pay for an extension of benefits, which will cost $1 billion to $2 billion a month depending on the scope of the program according to the Congressional Budget Office.[22]

Challenging the Position that Unemployment Benefits Discourage the Jobless from Looking for Work

It is important to respond to the questionable argument by some critics that jobless benefits should not be extended because they discourage the unemployed from looking for work. The reality is that the effect of unemployment benefits on the time spent unemployed is generally overstated, especially during recessions when the competition for jobs is most intense. In addition, the argument too often ignores how jobless benefits improve the quality of jobs the unemployed eventually secure.

First, with regard to the research, the extent of the impact of unemployment benefits on the duration of unemployment is a subject of significant debate. While some researchers have found that a 13-week extension of benefits is associated with a two-week increase in the duration of unemployment,[23] others have recently concluded that the outcome varies significantly depending on the study design.[24] Still other studies have concluded that increases in the length of time workers are unemployed while on benefits is more a function of other factors, including the increase in manufacturing layoffs, not more generous unemployment benefits.[25]

Second, and perhaps most important, the argument conspicuously fails to account for the favorable impact on the quality of jobs that unemployed workers are able to secure with the help of their unemployment benefits. As described by a group of leading authorities assembled by the U.S. Department of Labor to evaluate the UI program, a primary objective is to allow workers "the time needed to locate or regain employment that takes full advantage of [their]

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[21] Advisory Council on Unemployment Compensation, *Defining Federal and State Roles in Unemployment Insurance* (January 1996), at pages 7-8.
[22] Congressional Budget Office, *Options for Responding to Short-Term Economic Weakness* (January 2008), at page 17.
[23] Woodbury, Rubin, "The Duration of Benefits" (in Unemployment Insurance in the United States: Analysis of Policy Issues: Upjohn Institute for Employment Research, 1997).
[24] Card, Chetty, Weber, "The Spike at Benefit Exhaustion: Leaving the Unemployment System or Starting a New Job?" (National Bureau of Economic Research: February 2007), at page 5 ("With respect to behavior at point of exhaustion, some (but not all) of the studies using survey data to measure job starts find evidence of a spike in the re-employment hazard, while most (but not all) of the studies using administrative data on job starts finds a relatively smooth hazard. Overall, the literature suggests that spikes in the exit rate around benefit exhaustion are generally smaller when duration is measured as time to next job rather than time unemployed.")
[25] Needles, Nicholson, "Any Analysis of Unemployment Insurance Durations Since the 1990-1992 Recession (Mathematica Policy Research, Inc., March 1999), at pages 6-7 ("The aggregate analysis concludes that changes in weekly benefit amounts or in average potential duration at the state level cannot explain the increase in average UI duration relative to historical patterns.")

skills and experience."[26] Indeed, the research conclusively shows that those collecting unemployment benefits receive more in pay and better benefits in replacement jobs, including health care, which is of special significance in today's economy.[27]

Finally, consider the fact that unemployment benefits only average $290 a week. Given these limited benefits, it is simply unfair and unreasonable to conclude that a typical unemployed worker, faced with seeking employment during a recession while also having to pay for the rising costs of housing, food, gas and home heating, would find the benefits themselves sufficient to reduce the aggressiveness of their job search. Indeed, a national poll of unemployed workers conducted during the last recession found that they applied for an average of 29 jobs a month, which is certainly an active and intensive effort to find work.[28]

In fact, during periods of recession, it is especially unconvincing to argue that extra benefits will negatively influence the job search of large numbers of workers. As former Federal Reserve Chairman Alan Greenspan argued in testimony before Congress in 2002, "[W]hen you get into a period where jobs are falling, then the arguments that people make about creating incentives not to work are no longer valid and hence, I have always urged that in periods like this, the economic restraints on the unemployment insurance system almost surely ought to be eased to recognize the fact that people are unemployed because they couldn't be in a job, not because they don't feel like working."[29]

The Unemployment Rate Does Not Adequately Capture the Need for Federal Extended Benefits

Treasury Secretary Henry Paulson, the administration's chief economic spokesman, parted ways with leading national economists when he opposed an extension of jobless benefits to help stimulate the economy. According to Mr. Paulson, "with unemployment at 4.9 percent, to extend unemployment benefits would be unprecedented."[30] Subsequent statements by the President and others in his administration echo Mr. Paulson's views.

The administration's reliance on the national unemployment rate to refuse to extend jobless benefits is misplaced. First, this rationale fails to take into account the stark new realities of slow job growth and greater long-term unemployment, neither of which is adequately captured by the overall unemployment rate—and both of which are powerful reasons to extend unemployment benefits.

Second, as Professor Rebecca Blank has documented, the shifting age distribution of the civilian labor force has reduced the unemployment rate as the baby boom generation has grown

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[26] Blaustein, *Unemployment Insurance in the United States: The First Half Century* (1993), at page 47 (quoting the U.S. Department of Labor, Committee on Unemployment Insurance Objectives, 1969)
[27] See footnote 18.
[28] Peter D. Hart Research Associates, "Unemployed in America" (poll commissioned by the National Employment Law Project, April 2003).
[29] Testimony of Chairman Greenspan, quoted in "Senate Proposal to Add Unemployment Insurance Benefits Improves Effectiveness of Stimulus Bill" (Center on Budget and Policy Priorities, January 31, 2008).
[30] "Official Urges Senate to Pass Stimulus Plan," *Bloomberg News* (February 6, 2008).

while the share in younger age groups has fallen.[31] Thus, the unemployment rate has been lower in recent years because the growing population older workers tend to be more often employed compared younger workers. Indeed, when Professor Blank weighted the January 2008 unemployment rate to reflect the age distribution of the workforce in July 1990, the recent rate was a half a percentage point higher (5.4 percent in January 2008, not 4.9 percent).

The administration's argument ignores the fact that the unemployment rate has lagged farther and farther behind in relation to recent economic recoveries. Thus, the unemployment rate does not increase substantially until the economy is already well into a recession. Excluding the last two cycles, since 1948 it took, on average, 1.6 months into an economic recovery for unemployment rates to peak.[32] In contrast, following the 1990-91 recession, it took 15 months for unemployment to peak. The lag was even longer for the 2001 recession, when it took the unemployment rate 19 months before it peaked.

Finally, the role of extended benefits is to stimulate the economy, thus forestalling or helping to minimize a recession. Waiting, as the administration proposes, to extend unemployment benefits <u>until</u> after unemployment has risen sharply—signaling a recession is well underway or has ended—is akin to closing the door after the horse has left the proverbial barn.

For example, consider the experience of the last several recessions, when Congress and the President did not extend benefits until 12 to 16 months <u>after</u> the recessions began, thus failing to take advantage at the front end of the opportunity to avert or minimize the downturn. Indeed, in the case of the last extension, Congress waited until March 2002, four months after the recession ended to enact extended benefits. By that time, the unemployment rate had reached 5.7 percent, the number of workers exhausting unemployment benefits had increased from 192,000 (at the beginning of the recession) to 372,000 a month, and a total of 3.5 million long-term jobless workers had been left without any additional jobless benefits to support their families.

Conclusion

The latest jobs report clearly indicates that a national recession is a reality for today's hard-working families. Jobs are scarce and literally millions of workers are running out of their limited state unemployment benefits, while also struggling to keep their homes and cover the record costs of basic necessities, including food and gas. Congress now has a fundamental choice that will significantly influence the nation's economy and these struggling families – whether to further delay extending jobless benefits, thus causing more economic hardship, or act now to provide the economic boost that the unemployment system was intended to deliver to prevent a more serious economic downturn. We urge Congress to immediately extend jobless benefits.

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[31] Testimony of Rebecca Blank before the U.S. Congress Joint Economic Committee (March 7, 2008).
[32] "The Rising Stakes of Job Loss," at page 3.

State	Estimated Number of Workers who Will Exhaust State Jobless Benefits (March 2008 - August 2008)	Estimated Number of Workers who Will Exhaust State Jobless Benefits (September 2008 - February 2009)	Estimated Total
Alabama	14,869	15,518	**30,387**
Alaska	8,902	7,274	**16,176**
Arizona	18,678	24,380	**43,058**
Arkansas	17,572	15,665	**33,237**
California	253,602	273,805	**527,407**
Colorado	16,364	15,919	**32,283**
Connecticut	22,611	20,330	**42,941**
Delaware	4,854	4,235	**9,089**
D.C.	4,919	5,765	**10,684**
Florida	87,740	98,098	**185,838**
Georgia	49,751	42,554	**92,305**
Hawaii	3,023	3,432	**6,455**
Idaho	8,480	5,279	**13,759**
Illinois	76,340	64,913	**141,253**
Indiana	45,826	37,139	**82,965**
Iowa	13,770	9,702	**23,472**
Kansas	9,449	9,562	**19,011**
Kentucky	14,024	12,605	**26,629**
Louisiana	12,847	13,163	**26,010**
Maine	5,844	5,050	**10,894**
Maryland	19,567	17,636	**37,203**
Massachusetts	42,537	43,764	**86,301**
Michigan	82,978	81,361	**164,339**
Minnesota	28,105	22,972	**51,077**
Mississippi	8,980	10,634	**19,614**
Missouri	22,703	22,255	**44,958**
Montana	4,733	2,919	**7,652**
Nebraska	8,159	7,505	**15,664**
Nevada	18,986	17,345	**36,331**
New Hampshire	2,346	2,434	**4,780**
New Jersey	75,919	80,938	**156,857**
New Mexico	6,893	7,694	**14,587**
New York	93,450	99,386	**192,836**
North Carolina	56,965	58,953	**115,918**
North Dakota	2,481	1,578	**4,059**
Ohio	46,780	40,841	**87,621**
Oklahoma	7,559	9,175	**16,734**
Oregon	26,492	21,971	**48,463**
Pennsylvania	76,749	73,509	**150,258**
Rhode Island	9,325	8,892	**18,217**
South Carolina	25,304	24,492	**49,796**
South Dakota	487	364	**851**
Tennessee	27,439	29,503	**56,942**
Texas	50,316	67,184	**117,500**
Utah	5,451	3,711	**9,162**
Vermont	2,605	2,115	**4,720**
Virginia	20,930	21,539	**42,469**
Washington	21,419	18,160	**39,579**
West Virginia	5,905	4,824	**10,729**
Wisconsin	40,769	34,751	**75,520**
Wyoming	1,763	1,413	**3,176**
Total	**1,533,560**	**1,524,206**	**3,057,766**

Chairman MCDERMOTT. Thank you very much.

Mr. Brill, who is a Fellow with the American Enterprise Institute for Public Policy Research.

Mr. Brill.

STATEMENT OF ALEX M. BRILL, RESEARCH FELLOW, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. BRILL. Thank you very much. Chairman McDermott, Ranking Member Weller, Members of the Subcommittee, thank you for the opportunity to testify on the topic of unemployment insurance.

My name is Alex Brill, and I am a Research Fellow at the American Enterprise Institute.

I would like to address just three points from my written testimony and discuss each in a bit of detail.

First, while growth of the U.S. economy is near zero, a disaggregate inspection reveals both strong and weak components and regions in our economy.

Second, the optimal duration of unemployment insurance requires a balancing act. Unemployment insurance is necessary for many workers but too much UI will hamper labor markets, raise unemployment and slow growth.

Third, targeted and temporary extended UI is appropriate in some labor markets and the most efficient policy would be one that is precisely targeted.

First, regarding the economy. Indicators for the first quarter of 2008 suggest that growth remained very slow and was possibly negative. However, our economy is an amalgamation of numerous sectors, industries and distinct labor markets.

The U.S. economy expanded.6 percent in the fourth quarter of 2007, but the components of growth performed quite differently. For example, export growth added eight-tenths of a percentage point to GDP, while the decrease in motor vehicle output reduced growth by.9 percentage points.

Nevertheless, the national unemployment rate increased three-tenths of a percentage point from February to March and rose to 5.1 percent, and jobs have on net declined for 3 months in a row.

Even after controlling for shifts in the workers' age, unemployment is lower than when extended benefits were passed by Congress in February 2002.

Both initial claims and long term unemployment as a share of total employment have increased over the past year but remain low by historical comparison.

Similarly, labor markets are performing differently across the country and across industries. From February 2007 to February 2008, 20 states saw a decrease in their unemployment rate. Forty-three states and the District of Columbia saw employment gains in February 2008.

Second, the theory of optimal unemployment insurance design requires a balancing act between two competing forces. On the one hand, labor market rigidities, liquidity constraints and a tax system that discourages savings makes it appropriate for a program such as UI to help workers be able to find the best available job.

On the other hand, too much unemployment insurance will lead to an increased duration of unemployment through a decreased incentive to find a job. This will lead to a higher unemployment rate and lower levels of economic output and growth.

The optimal duration of unemployment benefits is a function of current labor market conditions which are inherently local in nature.

Therefore, if Congress considers an expansion to unemployment insurance, it is important to design a targeted program that to the extent possible provides additional benefits only to workers where labor markets are slack and only on a temporary basis.

I will conclude by noting that unemployment insurance is a key Government policy and it affects the ability for workers to find optimal job search opportunities and it affects the degree of labor market flexibility in our economy. Labor market flexibility is a key for economic growth.

The International Monetary Fund estimated in 2003 that if Europe were to adopt labor market institutions and structures similar to the United States that their economy could experience an additional economic growth of up to 5 percent.

Thank you.

[The statement of Alex M. Brill follows:]

Statement of Alex Brill, Research Fellow,
American Enterprise Institute for Public Policy Research

Chairman McDermott, Ranking Member Weller, and Members of the Subcommittee, thank you for the opportunity to testify this morning on the topic of unemployment insurance. My name is Alex Brill, and I am a research fellow at the American Enterprise Institute (AEI). This morning, however, I am conveying my own views and not those of the AEI or any other organization with which I am affiliated.

My testimony today will address five topics: first, the current economic outlook from an aggregate, sector and regional perspective; second, the theoretical concepts for optimal unemployment insurance design; third, the importance of labor market flexibility for economic growth and lessons from Europe; fourth, extended unemployment insurance as a tool for economic stimulus and finally, alternatives to consider to the existing UI system.

Current Economic Outlook

At present, the aggregate growth of the U.S. economy is at a near standstill. Growth in the fourth quarter of 2007 was a paltry 0.6 percent (all GDP growth figures are annualized rate) and indicators for the first quarter of 2008 suggest that growth remained very slow and was possibly negative. An excessive supply of residential housing, inflated home prices, and turmoil in the credit markets are at the center of the current economic weakness. Other sectors and industries could become ensnarled as well. The outlook for the economy for the remainder of 2008 is highly uncertain. Many economists expect an improvement in the second half of the year, though such a timely return back toward trend growth depends on a prompt recovery of credit markets and financial institutions.

While the performance of the *aggregate* U.S. economy is a useful thumbnail for gauging the simple trends of the economy, our economy is an amalgamation of numerous sectors, industries and distinct labor markets. Looking more closely at specific sectors and geographic areas reveals considerable variation in our economic performance. Our economy is clearly faltering in some areas while growth remains relatively robust in other areas.

Consider the fourth quarter of 2007, the most recent period for which we have complete data. In the aggregate, the U.S. economy expanded 0.6 percent but the components of GDP performed very quite differently. The service sector of the economy grew 3.1 percent while the goods-producing sector contracted 1.6 percent. Ex-

port growth added 0.8 percentage points to GDP while the decrease in motor vehicle output reduced the overall growth by 0.9 percentage points.[1]

GDP growth varies considerably by region as well, though government statistics are not as timely for state output as they are for state employment or industry production. That said, the Far West, Rocky Mountain, and Southwest regions of the U.S. have been growing considerably faster than the Plains, Great Lakes, and New England states. For example, Washington State grew 5.6 percent in 2006 while Illinois grew 3.0 percent.[2]

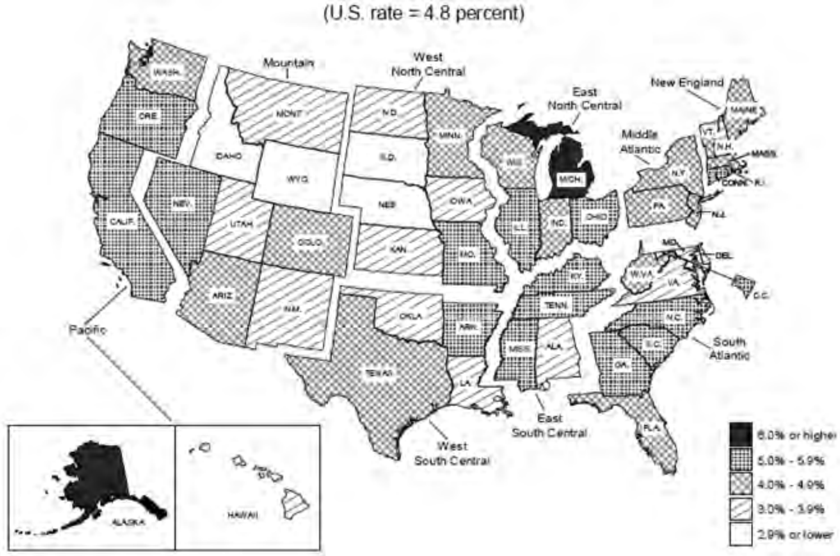
Similarly, labor markets are performing differently across the country and across industries, with some areas of elevated unemployment and other areas where jobs are still relatively plentiful. For examples, employment in the healthcare sector increased nearly 1 million from January 2003 to September 2006 and has since grown by an additional 530,000 jobs. In the construction sector, employment also increased by about 1 million from January 2003 to September 2006 but has since fallen by 400,000 jobs.

By state, the employment situation varies considerably as well. During the twelve months from February 2007 to February 2008, twenty-six states and the District of Columbia saw an increase in their unemployment rate and twenty states saw a decrease in their unemployment rate. In February, the unemployment rate was the highest in Michigan at 7.2 percent and lowest in Wyoming at 2.7 percent. Figure 1, reproduced from the Bureau of Labor Statistics (BLS), illustrates the variation in unemployment by state for February 2008.

Forty-three states and the District of Columbia saw employment gains in February 2008. The largest percent increases in employment were in Wyoming, Texas, Utah, Washington, and Colorado. Seven states experienced declines in employment, the largest of which were Rhode Island, Michigan, Florida, Wisconsin, and Nevada.[3]

Figure 1. Unemployment rate by State, February 2008

(U.S. rate = 4.8 percent)



Source: "Regional and State Employment and Unemployment: February 2008," BLS News Release, March 28, 2008.

[1] See "Gross Domestic Product: Fourth Quarter 2007 (Final)," Bureau of Economic Analysis News Release, March 27, 2008, Appendix A. Accessible at http://www.bea.gov/newsreleases/national/gdp/2008/pdf/gdp407f.pdf.

[2] See "Gross Domestic Product (GDP) by State, 2006," Bureau of Economic Analysis (BEA) New Release, June 2, 2002. Accessible at http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm

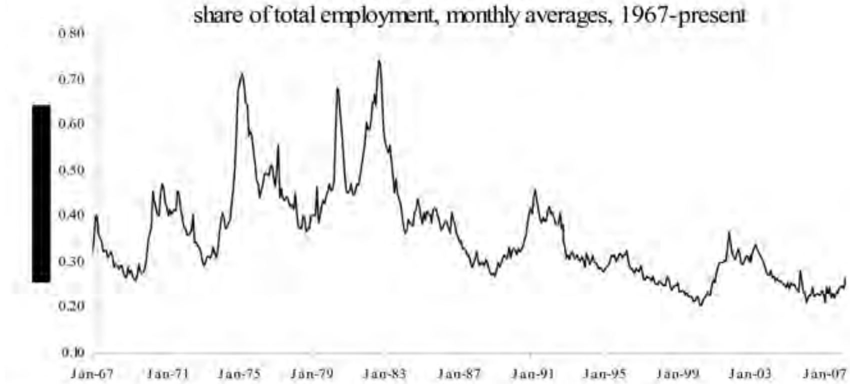
[3] See "Regional and State Employment and Unemployment: February 2008," Bureau of Labor Statistics News Release, March 28, 2008. Accessible at http://www.bls.gov/news.release/pdf/laus.pdf

Proper comparisons between the current labor market data and previous labor market statistics are difficult for a number of reasons. First, there is no obvious benchmark period for comparison. We do not know where we are precisely in the business cycle. Second, the structural and demographic characteristics of the labor market have changed. While some may choose to compare current labor market data to conditions at the onset of the last recession, that date (March 2001) was not known to be a business cycle peak until much later in the year. Indeed, economists still debate if that was the appropriate date for the turning point at all. A more appropriate comparison may be to compare current labor market conditions to conditions when unemployment benefits were first extended.

Second, the labor force has changed considerably over time as it has become older, more educated, and contains more foreign-born workers. All three groups are associated with lower levels of unemployment. And finally, the characteristics of the jobs in our economy have changed and the relative share of jobs that are unionized has declined.

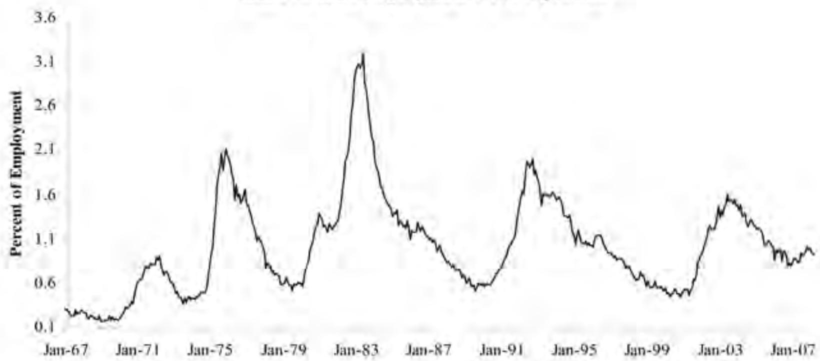
The characteristics of the current unemployment situation can be summarized as follows. The unemployment rate, 5.1 percent in March, is low by historical measure, though shifts in demographics and industry composition have contributed notably to its decline. The unemployment rate increased significantly from February to March. While gross job creation and gross job destruction are both over 2 million a month, net job creation has been negative for three consecutive months. Neither the long-term unemployment rate nor the share of unemployed that are long-term unemployed are high by historical average. Both initial jobless claims and long-term unemployment as a share of total employment have increased over the past year but remains low by historical comparison (See Figure 2 and Figure 3). Finally, aggregate labor market conditions, even after controlling for shifts in the workers' age, are better than when extended benefits were passed by Congress in February 2002 (See Table 1).

Figure 2. Weekly Initial Jobless Claims as a share of total employment, monthly averages, 1967-present



Source: Author's calculations using data on unemployment insurance weekly claims, Department of Labor and total nofarm emplyment data from Bureau of Labor Statistics Current Employment Survey; data is seasonally adjusted

Figure 3. Long-term unemployed as a share of total employment, 1967-present



Source: Author's calculations using data on workers unemployed 27 or more weeks and total nofarm emplyment data from Bureau of Labor Statistics Current Population Survey & Current Employment Survey; data is seasonally adjusted

Table 1. Unemployment Rate by Age Group

	Unemployment Rate (percent)		
Ages	**Mar-08**	**Feb-02**	**Aug-91**
16–19	15.8	16	18.9
20–24	9.3	9.7	10.8
25–34	5.3	5.8	7
35–44	3.8	4.4	5.3
45–54	3.5	3.9	4.6
55+	3.4	3.9	3.9
Aggregate Unemployment Rate	**5.1**	5.7	6.9
Mar-08 Unemployment weighted by Feb-02 Labor Force Share		**5.2**	
Mar-08 Unemployment weighted by Aug-91 Labor Force Share			**5.5**

Note: February 2002 and August 1991 were when Congress first voted to provide extended UI benefits in previous cycles
Source: Bureau of Labor Statistics for distribution of worker's and unemployment rate by age category. Concept based on Rebecca Blank (2008)

Theoretical view on optimal unemployment insurance

The theory of optimal unemployment insurance design suggests a balancing act between two competing forces. On one hand, labor market rigidities (such as minimum wage, union bargaining powers, and employment protections), liquidity constraints for many households (namely the inability for many households to borrow against future earnings), and a tax system that distorts the decision between current consumption and savings (thereby discouraging precautionary savings for unemployment spells), make it appropriate for a program such as unemployment insurance to assist displaced workers so that they have resources to obtain the next best employment opportunity.

On the other hand, too much unemployment insurance (determined by the duration of benefits, the replacement rate of previous wages or both) will lead to an increased duration of unemployment through a decreased incentive to find a job. This will lead to a higher unemployment rate and lower levels of economic output and growth.

Furthermore, the unemployed are a heterogeneous population. Unemployed workers have varying degrees of precautionary savings (including zero) and may or may not have spousal income to rely on during a period of unemployment. As a result,

optimal unemployment insurance varies across the unemployed population and therefore a single benefits rule is inherently imperfect.

The optimal duration of unemployment benefits for a given worker is also a function of current labor market conditions that are inherently local in nature and skill specific. Therefore, when conditions deteriorate in a particular labor market, it is reasonable to offer additional benefits since finding a job is likely to take longer. Of course, the current law extended benefit (EB) program is designed to address these concerns by providing additional benefits for states with high and rising unemployment. However, due to a variety of changes to the U.S. economy, population, and labor market, these triggers may be too high to be effective. In general, the triggers for the current law EB program were set when the natural rate of unemployment was considerably higher. Therefore in today's economy, EB is considerably less likely to be triggered during a period of weak labor markets than when it was first implemented.[4]

Therefore, when Congress considers changes to unemployment insurance to provide additional assistance to unemployed workers, it is important to design a targeted program that, to the extent possible, provides additional benefits only to workers where labor markets are slack and only on a temporary basis.

The Stimulus Digression

I would like to emphasize that the benefit of a well-designed UI system is that it promotes labor market efficiencies and long-run economic growth. One commonly emphasized economic perspective of unemployment insurance (UI) is that providing extended benefits is an effective tool for economic stimulus. I disagree and believe that while a well designed system, which compensates for labor market imperfections and rigidities will boost economic growth in the long-run, providing UI benefits that exceed the optimal level and duration will not provide measurable positive short-term stimulus.

Why do I believe that there are only small short-term effects? First, while providing additional dollars to unemployed workers is likely to result in a relatively large share of those dollars being used to stimulate aggregate demand, there is a potentially offsetting effect as workers may remain out of the workforce longer. As a result, they will not contribute to aggregate supply and not receive as much income as they would if employed. Second, even the most generous proposals for extending unemployment benefits are small relative to the $14 trillion U.S. economy. Furthermore, estimates of the multiplier effect of UI cited by some policy analysts (Chimerine, et al. 1999) relate to the effects of the current program, not the marginal effect of an expansion of the program. Finally, Harvard University Professor of Economics Martin Feldstein testified in 2007 that notes, "[w]hile raising unemployment benefits or extending the duration of benefits beyond 26 weeks would help some individuals . . . it would also create undesirable incentives for individuals to delay returning to work. That would lower earnings and total spending."[5] UI policy should be based on labor-market efficiency, not short-run stimulus.

Labor market flexibility

Unemployment insurance is a key government policy that affects the degree of labor market flexibility in an economy and labor market flexibility is a key for economic growth. Countries with more generous unemployment insurance tend to have higher levels of unemployment and slower growth. The International Monetary Fund's 2003 *World Economic Outlook* noted that "The persistence of high unemployment in a number of industrial countries . . . is arguably one of the most striking economic policy failures of the last two decades. A wide range of analysts and international organizations—have argued that the cause of high unemployment can be found in labor market institutions."[6] The IMF also estimates that if Europe were to adopt labor market institutions and structures similar to the United States that economy could experience additional economic growth of five percent.

While extending unemployment benefits beyond 26 weeks is only one change in labor market protections among the many differences that exist between the U.S. and Europe, it is one that in a full-employment economy would tend to raise unemployment and slow economic growth. As the following charts indicate, the U.S. had a lower unemployment rate and a lower long-term unemployment rate lower in 2006

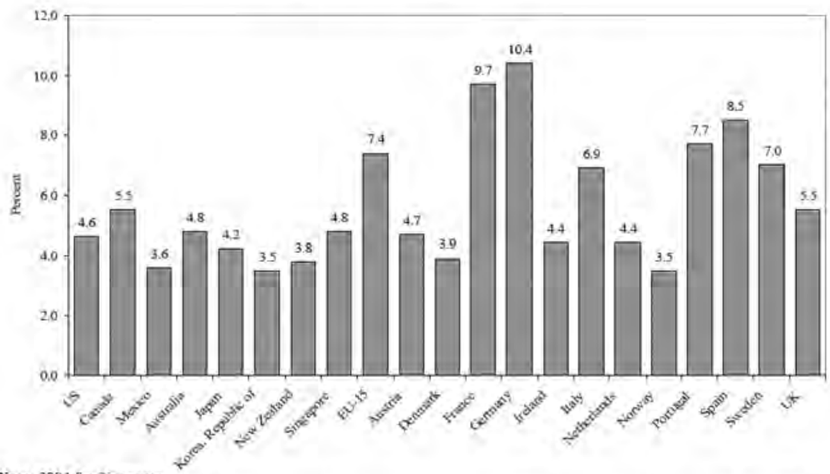
[4] The Congressional Budget Office estimates the natural rate of unemployment in the U.S. to be 5.0 percent, a decrease of over 1 percentage point since 1981 when the extended benefits program was last changed. See Brauer, David, "The Natural Rate of Unemployment," Working Paper Series 2007–06 Congressional Budget Office, April 2007.

[5] The Senate Finance Committee, "Testimony of Martin Feldstein" January 24, 2007 http://www.senate.gov/%7Efinance/hearings/testimony/2008test/012408mftest.pdf

[6] The IMF, World Economic Outlook: Growth and Institutions, 2003.

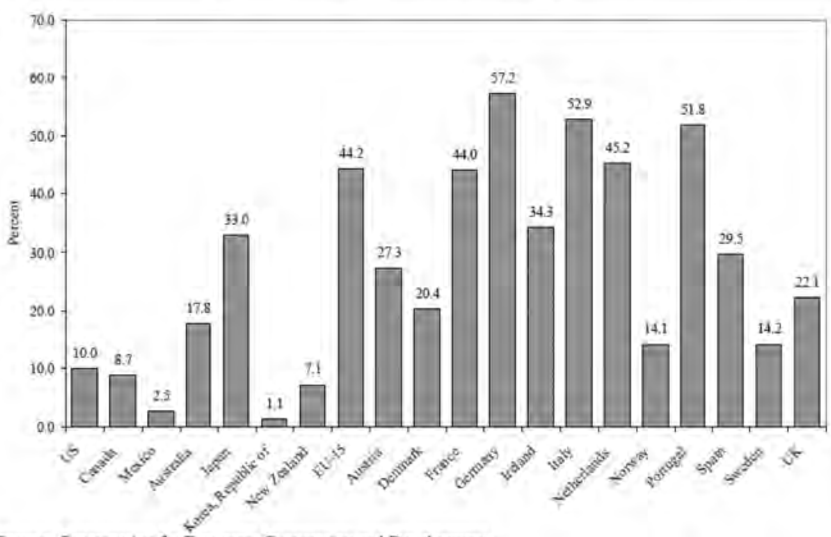
compared to most OECD countries. The U.S. also has smaller public expenditures on labor market programs as a share of GDP, less labor market regulations, and lower income and social security tax burdens for average workers than most OECD countries. Over the last ten years, the U.S. economy has grown faster on a per capita basis than all of Western Europe except Ireland, Spain, and Sweden. Taken together, this data suggests that increasing the generosity of unemployment benefits to be more similar to other developed countries could likely lead to higher unemployment and slower growth in the U.S.

Figure 4: Unemployment Rate, 2006



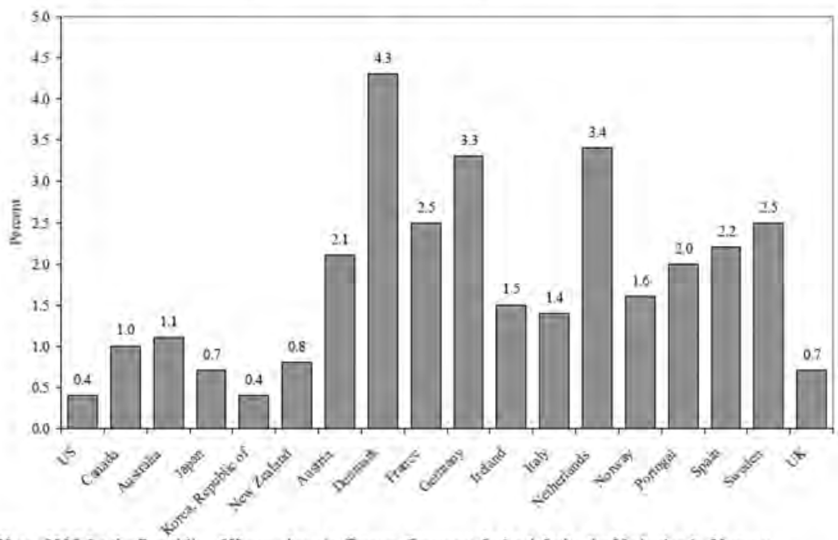
Note: 2004 for Singapore
Source: Bureau of Labor Statistics, Organization for Economic Cooperation and Development, and International Labor Office

Figure 5: Persons unemployed one year or longer, 2006



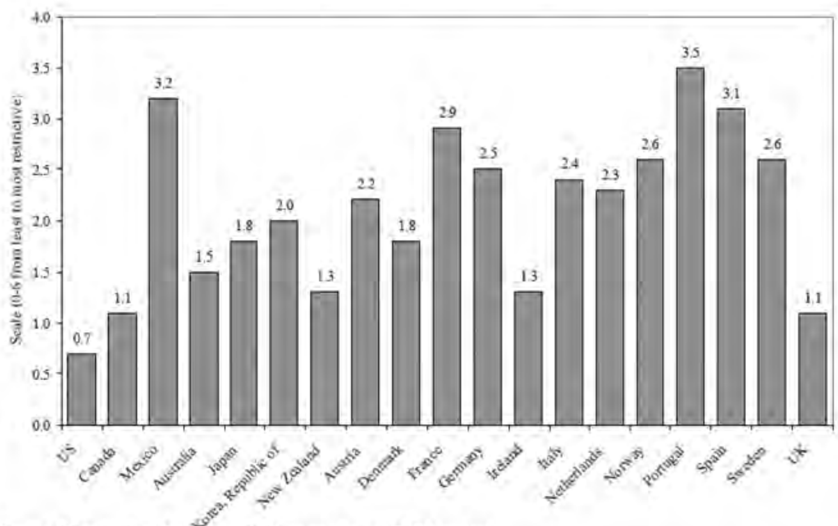
Source: Organization for Economic Cooperation and Development

Figure 6: Public Expenditures on labor market programs as a share of GDP, 2005-06



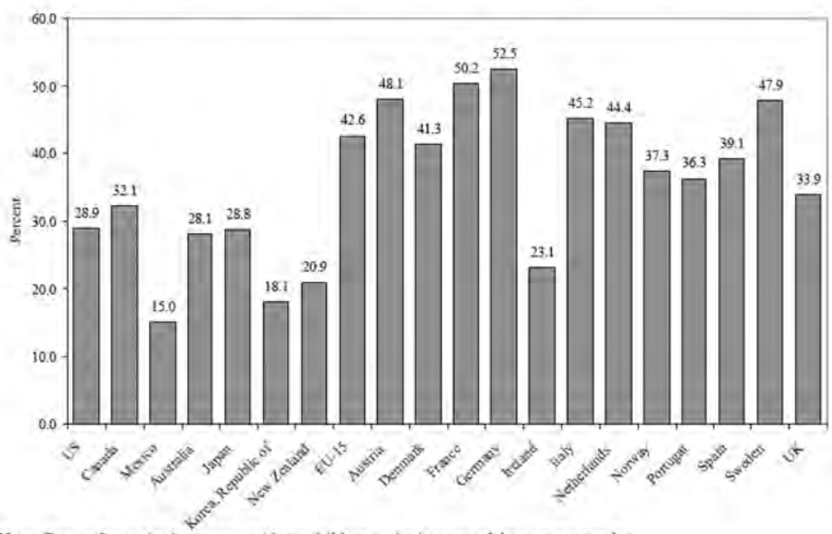
Note: 2005 for the Republic of Korea, Austria, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, and Sweden. Fiscal year 2005 for the United Kingdom. Fiscal year 2006 for the United States, Canada, Australia, Japan and New Zealand.
Source: Organization for Economic Cooperation and Development

Figure 7: Measures of regulation on labor markets, 2003



Source: Organization for Economic Cooperation and Development

Figure 8: Share of labor cost taken by tax and social security contributions, 2006



Note: Data refer to single persons without children at the income of the average worker
Source: Organization for Economic Cooperation and Development

Alternatives to current unemployment insurance program

I would like to conclude my testimony by noting that alternatives to the current unemployment insurance program could be designed to adequately address the limited liquidity of a large fraction of unemployed and other short-comings in labor markets without creating a discouraging job search. For example, Joseph Stiglitz and Jungyoll Yun (2005)[7] propose combining an unemployment insurance system with the public pension system (Social Security). Martin Feldstein and Daniel Altman (2007)[8] propose unemployment insurance savings accounts (UISAs), where workers would contribute a share of their wages and be allowed to draw from the account should they become unemployed. The UISA accounts would provide an incentive for workers to find employment promptly. Only those with a negative balance in their account would face the biased incentives which exist in the current system.

Other alternatives are also worthy of consideration, including mandating that employers purchase private insurance to provide unemployment insurance to their workers, or offering reemployment incentives to encourage shorter unemployment spells. Wage insurance is yet another alternative or complimentary policy that could assist workers during changes in labor markets. Finally, more incremental reforms could also improve the efficiency of the current system such as reforms to improve the experience rating system—which currently imprecisely relates the employers' history of laying of workers to their unemployment tax.

Conclusion

While the U.S. labor market has deteriorated in the last few months, aggregate conditions are not worse than they were when extended UI benefits were enacted in 2002. More important than national statistics are those related to specific labor markets and industries. Any legislation to provide additional unemployment benefits should be carefully targeted to limit the moral hazard effect. Furthermore, any extension of benefits should be temporary so not to continue when the economy re-

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[7] Stiglitz, Joseph and Yun, Jungyoll "Integration of unemployment insurance with retirement insurance," *Journal of Public Economics*, Vol. 89. December 2005, pp. 2037–2067. http://www2.gsb.columbia.edu/faculty/jstiglitz/download/2005_Unemployment_Insurance.pdf

[8] Feldstein, Martin S. and Altman, Daniel. "Unemployment Insurance Savings Accounts." in James Poterba, ed., *Tax Policy and the economy*. Vol. 21. Cambridge, MA: MIT, 2007, pp.35–58.

turns to trend growth. Finally, I encourage the Committee to consider fundamental reforms to the UI system as alternative approaches may improve labor market efficiencies, raise employment and strengthen the U.S. economy.

I am happy to answer any questions.

Chairman MCDERMOTT. Thank you very much. Thank you all for your testimony.

I just have to observe before I ask a question of Dr. Blank, the last issue that was decided in 1935 in the passage of the Social Security Act was whether or not to include unemployment insurance. The argument was that if you gave unemployment insurance, they would lose their incentive to find another job. That idea has not gone away. It still exists in this city, and I think it has been proven wrong over and over again.

Dr. Blank, I want to ask a question about the issue of the unemployment situation broader than this whole issue that we are talking about here today.

The unemployment insurance has not been reformed for a long time, but the workforce has changed dramatically. We put a reform bill into the Trade Assistance Adjustment bill, and it is sitting over there.

I would like to hear you talk about if we pass that, what would happen to the unemployment situation and the benefit situation in this country?

Dr. BLANK. I very much agree with you that there is a need for broader unemployment insurance reform beyond the issues of extended benefits that are the primary topic today.

Right now, I think it is just slightly over a third of all of the unemployed actually receive unemployment insurance, and one issue that——

Chairman MCDERMOTT. Do they pay into the fund?

Dr. BLANK. Most people, their employers are paying into the fund, but people do not get unemployment insurance for a variety of reasons. Their job does not last long enough. In some number of states, if you have very low wages or very low hours, you can't collect unemployment insurance. For instance, part-time workers, even though their employers pay in, cannot collect unemployment insurance.

The way in which the job terminates matters a great deal, so that a voluntary termination is almost never eligible for unemployment insurance. Involuntary terminations depend upon the State.

The result is a shrinking share of workers who become unemployed have any access to this particular benefit. That reflects a lot of changes in the state of the workforce and how well our current unemployment insurance system operates.

I think it is long overdue to talk about long term reforms to that entire system.

I should note for extended benefits, and this is important, the extended benefits tend to go to long term unemployed workers, and long term unemployed workers are much more likely to be receiving unemployment insurance. The reason is they are much more likely to have been workers for whom their entire area is being affected, they are often displaced workers, their plant has closed or

a whole number of people have been laid off at the same time, and that is the group that is disproportionately likely to get UI.

Sixty percent of the long term unemployed receive UI, so extended benefits, it will not get all of them, but it does target a pretty high share of the long term unemployed.

Chairman MCDERMOTT. Give me the panel's opinion of the effect of increasing prices of gasoline and food in terms of the benefits that are paid to people. The State of Washington pays X number of dollars a month. I don't know when it was last increased, but gasoline has gone up and food costs have gone up.

What is the effect today in terms of the buying power of the benefit packages that people actually are receiving?

Dr. BLANK. I can cite some evidence which is based on historical evidence, a study by Jonathan Gruber at the Massachusetts Institute of Technology who looked at the effects of unemployment insurance in cushioning consumption.

Workers who became unemployed and received unemployment insurance had about a 7 percent drop in their consumption in the next several months. Workers who did not receive unemployment insurance had a 22 percent drop in consumption.

Obviously, if you become unemployed and prices are rising at the same time, which is what is happening in today's economy, you would imagine those numbers might look even bigger.

Mr. EMSELLEM. The unemployment check, as I mentioned, on average is only $290 a week. There are a lot of states that are even lower than that. Gas is up $0.93 from a year ago. If you are out looking for work and live in a rural area and you really need to commute to go looking for jobs, it has a devastating impact. That does not even include the cost of housing and other basic expenses that have gone up.

Other studies have shown, CBO has shown, that unemployment extensions reduce poverty, the incidence of poverty, folks falling into poverty as a result of becoming unemployed by almost one-half. It has a very significant impact on the economic well-being of folks who are unemployed, not to mention the fact that it really does do a lot to help people get back to good jobs, not just regular jobs. That is part of the debate about——

Chairman MCDERMOTT. If I hear you correctly, the bill that Mr. Weller is suggesting would have—no one would receive benefits from that bill today?

Mr. EMSELLEM. That is correct. The bill requires not only that the State has an unemployment rate exceeding 6 percent on average over the past 3 months, but their unemployment rate also has to have increased over 10 percent over either the past 2 years.

You have the higher unemployment states like Michigan that had unemployment over 7 percent for 19 months, their unemployment rate is way high but it has been high for a long time.

Chairman MCDERMOTT. It has not increased?

Mr. EMSELLEM. It has not increased, and that is the situation with the last recession, that is the problem. That is the part of the permanent extended benefits program—that is another part of it that is real problematic.

Last recession, even in your bill, Congressman McDermott, the trigger—not in your bill, but in the last recession's bill, in your bill,

you accommodate this, it also required this increase in unemployment for high unemployment states, which left a lot of states dropping off even though they had very serious unemployment. Your bill corrects for that problem.

Chairman MCDERMOTT. Thank you. Mr. Weller will inquire.

Mr. WELLER. Thank you, Mr. Chairman. I would note based on your question, I would be happy to work with you to tweak that trigger so that benefits would go to those who need them.

I think there is bipartisan agreement that we want to ensure the unemployment benefits reach those in the states that need help and those who need help.

You look at the statistics, and before I ask my question, Mr. Chairman, I do want to ask unanimous consent to insert into the record at this point a memo from the Congressional Research Service comparing extended benefits' proposals that have been introduced this year, including our respective bills, information from the Department of Labor about State extended benefits' programs, three quotes from experts about how extended unemployment benefits can affect unemployment durations, and four, data comparing labor market conditions today with those in 1996.

Chairman MCDERMOTT. Without objection, so ordered.

[The information referred to follows:]

(1)

Congressional Research Service

Memorandum

April 9, 2008

TO: House Committee on Ways and Means
Attention: Matt Weidinger and Brian Newell

FROM: Julie M. Whittaker (x72587)
Specialist in Income Security
Domestic Social Policy Division

SUBJECT: Current Law and Selected Comparisons on Proposals Temporarily Extending Unemployment Benefits: the Senate Finance Committee Report of the Economic Stimulus Act of 2008, H.R. 4934, S. 2544, H.R. 5688, the "Emergency Extended Unemployment Compensation Act of 2008."

This memorandum responds to your request for a comparison of five proposals to temporarily extend the duration of Unemployment Compensation (UC): H.R. 4934, H.R. 5688, S. 2544, the proposal in the Senate Committee on Finance Report of the Economic Stimulus Act of 2008 dated January 30, 2008,[1] and the proposed "Emergency Extended Unemployment Compensation Act (bill number not available).[2] You requested that only sections related to the extension of unemployment benefits be detailed. Thus, only portions of H.R. 4934 (Title I- Emergency Unemployment Compensation and Title II-Increased Unemployment Benefits) and the Senate Committee on Finance proposal (Title I-Temporary Extended Unemployment Compensation) that directly relate to extending the duration of unemployment benefits are included. You also requested that any increase in the regular or temporary benefit be noted (both H.R. 4934 and S. 2544 temporarily increase both benefits). Matters concerning fraud and overpayments are not discussed in this memorandum. Others may ask for similar or identical information, which the Congressional Research Service will provide to them.

[1] This proposal was downloaded on April 8, 2008 from:
[http://www.senate.gov/~finance/sitepages/leg/LEG%202008/FINAL%20Original%20Bill.pdf]

[2] The discussion on the proposed "Emergency Unemployment Compensation Act of 2008," attributed to Representatives McDermott and English, is based upon the file you sent me on April 9, 2008 at 3:30 p.m. (file f:\V10\040808\040808.116.xml). For a detailed summary on how Congress has acted to extend unemployment benefits during economic recessions, see CRS Report RL34340, *Extending Unemployment Compensation Benefits During Recessions*, by Julie M. Whittaker.

Current Law

The Unemployment Compensation (UC) program, funded by both federal and state payroll taxes, pays benefits to covered workers who become involuntarily unemployed for economic reasons and meet state-established eligibility rules. Federal administration of UC is under the purview of the U.S. Department of Labor (DOL). Federal law sets broad rules that the 53 state programs must follow.

The Extended Benefit (EB) Program. The EB program, established by P.L. 91-373 (26 U.S.C. 3304), may extend UC benefits at the state level if certain economic situations exist within the state. Although the EB program is not currently active in any state, it - like the UC program - is permanently authorized. The EB program is triggered when a state's insured unemployment rate (IUR) or total unemployment rate (TUR) reaches certain levels. All states must pay up to 13 weeks of EB if the IUR for the previous 13 weeks is at least 5% and is 120% of the average rate for the same 13-week period in each of the previous 2 years. There are two other thresholds that states may choose. (States may choose one, both, or neither option). Under these options, the state would provide the following:

Option 1: an additional 13 weeks of benefits if the state's IUR is at least 6%, regardless of previous years' averages.

Option 2: an additional 13 weeks of benefits if the state's TUR is at least 6.5% and is at least 110% of the state's average TUR for the same 13-weeks in either of the previous two years; or an additional 20 weeks of benefits if the state's TUR is at least 8%.

Beyond the regular UC benefit eligibility requirements, eligibility for EB benefits requires that individuals must have 20 weeks of full-time insured employment or its equivalent.

Financing Unemployment Benefits. UC benefits are financed through employer taxes. The federal taxes on employers are under the authority of the Federal Unemployment Tax Act (FUTA), and the state taxes are under the authority given by the State Unemployment Tax Acts (SUTA). These taxes are deposited in the appropriate accounts within the U.S. Treasury's Unemployment Trust Fund (UTF).

The federal tax pays for both federal and state administrative costs, the federal share of the extended benefit (EB) program (50%), loans to insolvent state UC accounts, and state employment services. The state tax pays for the regular UC benefit and the state share of the EB program (50%).

Table 1: Current Law and Selected Comparisons on Proposals Temporarily Extending Unemployment Benefits

Program Feature	Current Law: P.L. 91-373 (26 U.S.C. 3304, note) Extended Benefit (EB) Program	Senate Finance Committee Report, January 30, 2008, Title II Temporary Extended Unemployment Compensation	H.R. 4934, Emergency Unemployment Compensation Act of 2008, Title I	S. 2544, Emergency Unemployment Compensation Act of 2008, Title II	H.R. 5688, Targeted Assistance to Restore Growth in Employment Throughout 2008 Act	Emergency Extended Unemployment Compensation Act of 2008 (Bill Number Not Available)
How proposal extends unemployment benefits	The EB program may extend UC benefits at the state level if certain economic situations exist within the state. The EB program is permanently authorized.	Creates a new temporary extended benefit. Begins with enactment. Ends the week ending on or before December 31, 2008. No benefits after the week of March 31, 2009. No additional high unemployment benefits to those not already receiving the benefits on December 31, 2008.	Creates a new temporary extended unemployment benefit if federal economic trigger is met. Begins with enactment. Ends the week ending on or before December 31, 2008.	Creates a new temporary extended unemployment benefit. Begins with enactment. Ends 1 year later. No benefits past 18 months of enactment.	Creates a new temporary extended unemployment benefit if state economic trigger is met. Begins the week on or after April 1, 2008. Ends the week beginning before March 31, 2009.	Creates a new temporary extended benefit. Begins with enactment. Ends the week ending on or before February 1, 2009. No benefits beginning after the week of April 30, 2009.
Eligibility	Exhausted regular UC benefits. Beyond requirements for regular UC benefits, the beneficiary must have 20 weeks of full-time insured employment or its equivalent.	Exhausted regular UC benefits. Benefit year ended on or after February 1, 2007. (Unemployed workers who had exhausted benefits on or after February 1, 2007 would be eligible for temporary extended UC.) Beyond requirements for regular UC benefits, the beneficiary must have 20 weeks of full-time insured employment or its equivalent.	Exhausted regular UC benefits Benefit year ended on or after March 1, 2007.	Exhausted regular UC benefits. The bill would reach back to those workers who had filed an initial regular UC claim on or after the 12-month period before enactment.	Exhausted regular UC benefits. Benefit year ended on or after July 1, 2007.	Exhausted regular UC benefits. Benefit year ended on or after May 1, 2007. *Table continued on following pages.*

Program Feature	Current Law: P.L. 91-373 (26 U.S.C. 3304, note) Extended Benefit (EB) Program	Senate Finance Committee Report, January 30, 2008, Title II Temporary Extended Unemployment Compensation	H.R. 4934, Emergency Unemployment Compensation Act of 2008, Title I	S. 2544, Emergency Unemployment Compensation Act of 2008, Title II	H.R. 5688, Targeted Assistance to Restore Growth in Employment Throughout 2008 Act	Emergency Extended Unemployment Compensation Act of 2008 (Bill Number Not Available)
Potential duration	*Up to 20 weeks* for certain high unemployment states, or *Up to 13 weeks* for other states meeting other definitions of high unemployment, or *0 weeks* otherwise.	*Up to 26 weeks* in certain high unemployment states, or *Up to 13 weeks* otherwise.	*Up to 26 weeks* if national trigger has been met.	*Up to 33 weeks* for certain high unemployment states, or *Up to 20 weeks* otherwise.	*Up to 26 weeks* for certain high unemployment states, or *Up to 13 weeks* for other states meeting other definitions of high unemployment, or *Up to 5 weeks* for other states meeting different definitions of high unemployment, or *0 weeks* otherwise.	*Up to 26 weeks* in certain high unemployment states, or *Up to 13 weeks* otherwise. **Table** *continued on following pages.*

Program Feature	Current Law: P.L. 91-373 (26 U.S.C. 3304, note) Extended Benefit (EB) Program	Senate Finance Committee Report, January 30, 2008, Title II Temporary Extended Unemployment Compensation	H.R. 4934, Emergency Unemployment Compensation Act of 2008, Title I	S. 2544, Emergency Unemployment Compensation Act of 2008, Title II	H.R. 5688, Targeted Assistance to Restore Growth in Employment Throughout 2008 Act	Emergency Extended Unemployment Compensation Act of 2008 (Bill Number Not Available)
Federal and state triggers to begin program.	The EB program is triggered when a state's insured unemployment rate (IUR) or total unemployment rate (TUR) reaches certain levels. All states must pay up to 13 weeks of EB if the state's IUR for the previous 13 weeks is at least 5% and is 120% of the average of the rates for the same 13-week period in each of the 2 previous years. There are two other thresholds that states may choose. (States may choose one, both, or neither). Under these options, the state would provide the following: Option 1: an additional 13 weeks of benefits if the state's IUR is at least 6%, regardless of previous years' averages. Option 2: an additional 13 weeks of benefits if the state's TUR is at least 6.5% and is at least 110% of the state's average TUR for the same 13-weeks in either of the previous 2 years; or an additional 20 weeks of benefits if the TUR is at least 8%.	All states have at least 13 weeks. If the state is in an EB period or if the state's TUR >=6.5% or the state's IUR>=4% then the duration is increased by 13 weeks.	The first day of the first month following any month in which the number of unemployed persons age 16 or older as compared to the same month of the previous year exceeds one million.	All states have at least 20 weeks. If the state is in an EB period or if the state's TUR >=6.5% the duration is increased by 13 weeks.	*In order to be eligible for additional benefits states must change state law to elect one or more of these additional benefits. States are not required to participate in this program.* *Up to 5 weeks*, if state TUR >=6.0% and is at least 110% of the state's average TUR for the same 13-weeks in either of the previous 2 years; or, the IUR >=4% and is 120% of the average of the rates for the same 13-week period in each of the 2 previous years; or *Up to 13 weeks*, if state TUR >=6.3% and is at least 110% of the state's average TUR for the same 13-weeks in either of the previous 2 years; or, the IUR >=5% and is 120% of the average of the rates for the same 13-week period in each of the 2 previous years; or *Up to 26 weeks*, if state's TUR >=6.5% and is at least 110% of the state's average TUR for the same 13-weeks in either of the previous 2 years; or, the IUR is 5% and is 120% of the average of the rates for the same 13-week period in each of the 2 previous years; or *0 weeks* otherwise.	All states have at least 13 weeks. If the state is in an EB period or if the state's TUR >=6% or the state's IUR>=4% then the duration is increased by 13 weeks. *Table continued on following pages.*

Program Feature	Current Law: P.L. 91-373 (26 U.S.C. 3304, note) Extended Benefit (EB) Program	Senate Finance Committee Report, January 30, 2008, Title II Temporary Extended Unemployment Compensation	H.R. 4934, Emergency Unemployment Compensation Act of 2008, Title I	S. 2544, Emergency Unemployment Compensation Act of 2008, Title II	H.R. 5688, Targeted Assistance to Restore Growth in Employment Throughout 2008 Act	Emergency Extended Unemployment Compensation Act of 2008 (Bill Number Not Available)
Other additions to basic benefit or extended benefit	Not Applicable. EB payments are identical to regular UC benefit levels.	None.	*Section 201, Federal-State Agreements for Increased Unemployment Benefits* would supplement regular and emergency UC with an additional $50/week. Other sections of the bill would have incentives for states to expand UC benefit eligibility. Incentive payments would be up to $7 billion.	*The bill* would supplement regular and emergency UC with an additional $50/week.	None.	None.
Financing structure	The federal unemployment tax on employers, among other things, pays the federal share (50%) of the extended benefit (EB) program. State unemployment taxes on employers pay for 100% of the regular UC benefit and 50% of the EB benefit. UC benefits are financed through employer taxes. The federal taxes on employers are under the authority of the Federal Unemployment Tax Act (FUTA), and the state taxes are under the authority given by the State Unemployment Tax Acts (SUTA). These taxes are deposited in the appropriate accounts within the U.S. Treasury's Unemployment Trust Fund (UTF)	100% federally financed. Appropriates federal UTF funds as may be necessary for states in the administration of benefit.	100% federally financed (both the emergency UC and the additional $50/week from Section 201). Appropriates federal UTF funds as may be necessary for states in the administration of benefit.	100% federally financed. Appropriates federal UTF funds as may be necessary for states in the administration of benefit.	*First 5 weeks*: 50% federally financed. *Following 8 weeks*: 75% federally financed (if applicable). *Final 13 weeks*: 100% federally financed (if applicable). Appropriates federal UTF funds as may be necessary for states in the administration of benefit.	100% federally financed. Appropriates federal UTF funds as may be necessary for states in the administration of benefit. ***Table** continued on following page.*

Program Feature	Current Law: P.L. 91-373 (26 U.S.C. 3304, note) Extended Benefit (EB) Program	Senate Finance Committee Report, January 30, 2008, Title II Temporary Extended Unemployment Compensation	H.R. 4934, Emergency Unemployment Compensation Act of 2008, Title I	S. 2544, Emergency Unemployment Compensation Act of 2008, Title II	H.R. 5688, Targeted Assistance to Restore Growth in Employment Throughout 2008 Act	Emergency Extended Unemployment Compensation Act of 2008 (Bill Number Not Available)
Cost estimates	DOL actuarial estimates for the federal share of EB payments in FY2008 are less than $5 million. Source: *UI Outlook FY2009 President's Budget*, Department of Labor, Office of Workforce Security, Division of Fiscal and Actuarial Services, February 2008.	The Congressional Budget Office (CBO) estimated that the UC provisions in the Senate Finance bill would have a net cost of $13.9 billion from 2008 through 2013. Source: *Congressional Budget Office Cost Estimate, Economic Stimulus Act of 2008*, February 6, 2008.	No published CBO estimate	No published CBO estimate.	No published CBO estimate	No published CBO estimate. *End Table.*

Source: Congressional Research Service.

EXTENSIONS AND SPECIAL PROGRAMS

IN GENERAL

The previous chapter dealt with duration of benefits in terms of the regular UI program. However, extensions of UI benefits are available under certain circumstances. In addition, some programs provide benefits under conditions when UI is not normally payable. This chapter covers these special programs. In particular, it discusses extensions of benefits such as:

- State additional benefits (AB) programs;
- The federal-state Extended Benefits (EB) program; and
- Trade Readjustment Allowances (TRA).

This chapter also includes information on the Disaster Unemployment Assistance (DUA) program which provides assistance to individuals who are unemployed due to a disaster and who are ineligible for the regular UI program. Finally, it addresses programs commonly described as "alternative use" programs in that they allow payment of UI benefits under circumstances in which a worker would normally be ineligible. These include:

- Short-time Compensation (Worksharing); and
- Self-Employment Assistance (SEA).

PROGRAMS FOR EXTENDED DURATION

ADDITIONAL BENEFITS—A few states have solely state-financed programs for extending the potential duration of benefits during periods of high unemployment, for claimants in approved training who exhaust benefits, or for a variety of other reasons. Although some state laws call these programs "extended benefits," this document uses the term "additional benefits" to avoid confusion with the federal-state EB program.

The following table includes information about states that have permanent AB programs. Caution should be taken in using the following table because (1) some AB programs may be subject to annual legislative appropriations, meaning they may not be in effect; and (2) short-term AB programs will not be included if their legislative authorization expired prior to publication.

TABLE 4-1: STATES WITH ADDITIONAL BENEFITS PROGRAMS				
State	**Name of Extension**	**Duration**	**To Whom/When Payable**	**Miscellaneous**
AK	Supplemental Benefits	13 weeks	If claimant exhausts regular UI and does not qualify monetarily.	Permanent.
CA	Extended Duration Benefits	13 weeks	Payable to exhaustees who are not entitled to normal benefits if they meet applicable eligibility requirements for normal benefits, are not subject to disqualification, and are not under a disqualification for normal benefits.	Triggers if insured unemployment rate equals or exceeds 6%.
CT	Additional Benefits During Periods of Substantial Unemployment	13 weeks	Individuals who are not entitled to extended benefits for the federal state EB program that week.	Triggers if an EB period is in effect.
DC	Additional Benefits	Two 5-week phases	Paid to qualified claimants. Claimants must apply for phase two additional benefits by providing specific information about work search efforts made during phase one.	If insured rate of unemployment is 3.75% or higher and no federal program in effect.
HI	Additional Unemployment Compensation	13 weeks	Unemployed as a result of natural or man made disaster, as declared by the Governor. Must exhaust regular UI, not qualify for UI monetarily, or be self employed.	Must be approved by Governor.
IL	Additional Benefits	13 weeks	High unemployment or other specified factors.	State must choose to finance these benefits.
IA	Extended Benefits	13 weeks	If unemployed due to last employer going out of business, wage credits are recomputed up from 1/3 of wages for insured work to ½.	Permanent.
MA	Additional Benefits	18 weeks	For attending approved training course which, in opinion of Commissioner, will aid in finding appropriate employment. Only paid while attending such course, and only if exhausted all rights to regular and extended benefits and has no rights to benefits any other state or federal law.	Determined by the Commissioner.
MI	Extended Training or Retraining Benefits	18 weeks	Must be approved training and is separate from TRA.	Permanent.
MN	Additional Benefits	13 weeks	If claimant was laid off from main base period employer; that employer had 100 or more workers; employer laid off at least 50% of workforce; employer has no intentions of rehiring claimant; claimant exhausted regular UI; and facility is located in county with unemployment rate at least 10% from 3 months before to 3 months after lay off.	Determined by the Commissioner.
NJ	Additional Benefits During Training	26 weeks	Dislocated workers unlikely to return to previous employment because opportunities in the job classification are impaired due to substantial reduction in employment at worksite. Training must be for a labor demand occupation and must be approved.	Permanent. Prohibition triggers if amount of AB paid exceeds prescribed amount.
NY	Additional Training Benefits	104 effective days	Claimant must be in approved training, separate from TRA.	Permanent.
OR	Supplemental Benefits	26 weeks	Dislocated workers in approved training and workers whose unemployment resulted from the return to service in the Oregon National Guard or the military reserve forces of the U.S. following active duty service in Iraq and Afghanistan. (Unemployment substantially due to lack of job opportunities in local labor market due to: 1) high energy costs; 2) extended drought conditions and attendant economic conditions; 3) secondary effects of foreign trade; and 4) shift of production to another state or US territory.)	Permanent. Additional eligibility requirements apply.
	Additional Benefits	Up to 25% of most recent regular UI claim.	High unemployment.	Must not be eligible for other unemployment benefits.

EXTENSIONS AND SPECIAL PROGRAMS

TABLE 4-1: STATES WITH ADDITIONAL BENEFITS PROGRAMS				
State	**Name of Extension**	**Duration**	**To Whom/When Payable**	**Miscellaneous**
PR	Additional Benefits	(20 x WBA plus 32 x additional WBA) less maximum potential benefits payable in last benefit year.	For workers in special unemployment situation (displaced due to technological progress and/or the permanent disappearance of an industry, establishment, or occupation. Not for seasonal unemployment). Secretary determines if special unemployment situation exists.	Permanent.
WA	Training Benefits Program	52 x WBA less regular & EB benefits paid.	Dislocated workers needing full-time training in demand occupation.	Permanent.
WI	Temporary Supplemental Benefits	18 weeks	Must be certified as attending vocational retraining program.	Governor can elect to run this program or allow payment through federal state EB program.

FEDERAL-STATE EXTENDED BENEFITS (EB)

Since 1970, federal law has provided for payment of EB during periods of high and rising unemployment in a state.

TRIGGERS FOR EB—The following "triggers" are used to determined whether EB is payable in a particular state:

- Mandatory -- A state must pay up to 13 weeks of EB if the insured unemployment rate (IUR) for the previous 13 weeks is at least 5% and is 120% of the average of the rates for the corresponding 13-week period in each of the 2 previous years. (The IUR is the ratio of the number of individuals collecting UI to the number of workers who could potentially collect UI if they lost their jobs.)

- Optional -- A state may pay up to 13 weeks of EB if the IUR for the previous 13 weeks is at least 6%, regardless of the experience in the previous years.

- Optional -- A state may pay up to 13 weeks of EB if the average total unemployment rate (TUR), seasonally adjusted, for the most recent 3 months is at least 6.5% and is 110% of the rate for the corresponding 3-month period in either of the 2 previous years. If such rate is at least 8.0% and is 110% of the rate for the corresponding 3-month period in either of the 2 previous years, the duration increases from 13 to 20 weeks.

TABLE 4-2: STATES WITH OPTIONAL TRIGGERS FOR EB					
State	**DOES NOT Use 6% IUR Option**	**Uses 6.5% TUR Option**	**State**	**DOES NOT Use 6% IUR Option**	**Uses 6.5% TUR Option**
AK		X	NM		X
CT		X	NC		X
DE	X		ND	X	
FL	X		OR		X
GA	X		RI		X
IA	X		SD	X	
KS		X	UT	X	
KY	X		VT		X

EXTENSIONS AND SPECIAL PROGRAMS

TABLE 4-2: STATES WITH OPTIONAL TRIGGERS FOR EB					
State	**DOES NOT Use 6% IUR Option**	**Uses 6.5% TUR Option**	**State**	**DOES NOT Use 6% IUR Option**	**Uses 6.5% TUR Option**
MA	X		WA	X	X
NH	X	X	WY	X	
NJ		X			

FINANCING OF EB—Half of the cost of EB is financed by the federal government from FUTA revenues. (If the state already provides for duration of over 26 weeks for regular UI, the federal government will also share in the cost of any weeks beyond 26.) The federal share of EB will be reduced if a state (a) has no waiting week or permits payment of the waiting week at any time; or (b) does not round benefits down to the lower dollar. No federal sharing is available for EB costs attributable to employment with state and local governmental entities or federally recognized Indian tribes. (These entities do not pay the FUTA tax which finances the federal share of EB.)

SPECIAL QUALIFYING REQUIREMENTS—Generally, state law applies to the payment of EB. However, some special qualifying requirements exist:

- A worker must have 20 weeks of work or the equivalent (1-1/2 times high-quarter wages or 40 times weekly benefit amount) in the base period.

- A worker claiming EB who fails to make "a systematic and sustained" work search or to apply for or accept "suitable work" work is not entitled to EB until the worker has been employed during at least 4 weeks and has earned a total of 4 times the worker's EB amount. Suitable work is defined as "any work within such individual's capabilities."

- Any disqualification for voluntarily quitting work, committing misconduct, or refusing suitable work must be purged through subsequent employment.

REDUCTIONS IN AMOUNT OF EB—EB paid on interstate claims is limited to 2 weeks unless both agent and liable states are in an EB period. Also, workers who received TRA before EB triggered on in a state will have their EB entitlement reduced by the number of weeks of TRA received. In addition, some states reduce the EB amount payable to a worker during a period in which federal sharing of the cost of EB is reduced pursuant to a sequester order.

TABLE 4-3: STATES REDUCING EB PAYABLE PURUSANT TO A SEQUESTER ORDER				
Colorado	Kentucky	Missouri	North Carolina	South Dakota
Delaware	Louisiana	Nebraska	North Dakota	West Virginia
Kansas	Mississippi	New Mexico	Oklahoma	Wyoming

TRADE READJUSTMENT ALLOWANCES (TRA)

The Trade Act of 1974, as amended, provides for adjustment assistance to workers who are unemployed or underemployed because of the adverse effect of increased imports as a result of trade arrangements permitted under the Act or because of shifts in production outside the U.S. Trade adjustment assistance (TAA) provided by the Act consists of trade readjustment allowances (TRA), relocation and job search allowances, and subsistence and transportation allowances during periods of referred training.

The Secretary of Labor has entered into agreements with state agencies whereby the agencies will act as agents for the federal government in paying TRA and other allowances to eligible workers. Payments and administrative costs are paid for with federal funds.

EXTENSIONS AND SPECIAL PROGRAMS

CERTIFICATION PROCESS—Workers are certified as eligible to apply for TAA if a group of three or more workers, or a certified or recognized union or duly authorized representative petitions the Secretary of Labor for a determination of eligibility to apply for TAA and the Secretary determines that the importation of competitive foreign products or shifts in production outside the U.S. contributed importantly to the loss of employment at the firm mentioned in the worker's petition.

QUALIFYING REQUIREMENTS—To qualify for TRA the worker must have had at least 26 weeks of employment with wages of at least $30 a week within the 52-week period ending with the week of the individual's total or partial separation from adversely affected employment. Along with other requirements to receive TRA payments, the worker must be participating in an approved training program unless it is determined that training is not feasible or appropriate.

DURATION— Basic TRA is payable at the state UI rate over a 104-week eligibility period beginning with the first week after the worker's most recent TRA qualifying separation from employment. Basic TRA provides 52 weeks of income support less the UI entitlement in the trade-qualifying UI benefit period (generally 26 weeks of UI). Additional TRA is available up to 52 weeks for a total of 104 weeks of income support. In order to receive additional TRA a worker must be in TAA approved training. Workers whose training includes remedial education can get 26 additional weeks of TRA for a total of 130 weeks.

SUBSISTENCE AND TRANSPORTATION ALLOWANCES—An adversely affected worker may receive TRA while participating in approved training. Workers may also receive subsistence and transportation allowances while attending training at a facility which is not within commuting distance of their residence.

RELOCATION ALLOWANCES—Relocation allowances are payable to totally separated workers who have no reasonable expectation of securing suitable work in the area in which they live, and who have a bona fide offer of suitable work in the area in which they wish to relocate. Relocation allowances consist of (1) a lump sum payment of up to $1250; and (2) 90 percent of the expenses incurred in moving the workers, their families, and their household effects to the location of their new jobs.

JOB SEARCH ALLOWANCES—Job search allowances are payable to totally separated workers who have no reasonable expectation of securing suitable work in the area in which they live, and who have a reasonable expectation of securing suitable employment in the area of the proposed job search. Job search allowances consist of 90 percent of the cost of the necessary expenses incurred in the job search up to a maximum of $1250 under a single certification.

ALTERNATIVE USE AND DISASTER PROGRAMS

SHORT-TIME COMPENSATION (WORKSHARING)—Like the partial benefit provisions of state UI laws, short-time compensation, or worksharing, programs allow a worker who is employed for a portion of the week to collect UI benefits. Whereas partial benefit formulas look at the worker's earnings, worksharing looks at the hours of work.

Under worksharing, an employer elects to avoid layoffs by reducing the number of regularly scheduled hours of work for all workers. A worksharing plan must be agreed to by both the employer and, if unionized, the union and approved by the state UI agency. UI benefits are then payable for the hours of work reduced as a proportion of the benefit amount for a full week of unemployment. Workers are not required to meet a state's regular availability for work, actively seeking work, or refusal of work requirements, but are required to be available for their normal workweek.

TABLE 4-4: STATES WITH WORKSHARING PROGRAMS				
State	Period of Approved Plan	Required Reduction of Work	Maximum Number of Weeks Payable	Other
AZ	1 year	At least 10% but not more than 40%.	26 weeks (Limitation does not apply if state insured unemployment rate for preceding 12 weeks is equal to or greater than 4%.)	Tax rate increases 1% if the negative reserve ratio is less than 15%; 2% if the negative reserve ratio is 15% or more.
AR	12 months or date in plan, which-ever is earlier.	Not less than 10%, but not more than 40%.	26 weeks	
CA	6 months	At least 10%.	No limit on weeks, but total paid cannot exceed 26 x WBA.	Plans not required to address fringe benefits.
CT	6 months	Not less than 20%, but not more than 40%.	26 weeks (with 26 week extension possible)	
FL	12 months	Not less than 10%, but not more than 40%.	26 weeks	1% higher maximum tax rate. Other part-time employment affects payment.
IA	24 months	Not less than 20%, but not more than 50%.	26 weeks	
KS	12 months	Not less than 20%, but not more than 40%.	26 weeks	Automatic exclusion of negative balance employers.
LA	12 months or date in plan, which-ever is earlier.	At least 10%	26 weeks	Plans not required to address fringe benefits.
MD	6 months	At least 10% not to exceed to 50%.	26 weeks	All STC benefits charged to STC employer regardless of base period charging rule.
MA	26 weeks	Not less than 10%, but not more than 60%.	26 weeks	Employers with negative balances charged as though they were reimbursers.
MN	1 year	At least 20%, but not more than 40%.	52 weeks	
MO	12 months	Not less than 20%, but not more than 40%.	26 weeks	Worksharing benefits may not be denied in any week containing a holiday for which holiday earnings are committed to be paid by the employer, unless the working benefits to be paid are for the same hours as the holiday earnings.
NY		Not less than 20%, but not more than 60%.	20 weeks	
OR	No more than 1 year.	At least 20%, but not more than 40%.	26 weeks	If employer's benefit ratio is greater than its tax rate, the employer must reimburse the excess at the end of each calendar quarter.
RI	12 months	Not less than 10%, but not more than 50%.	52 weeks	All worksharing benefits charged to worksharing employer regardless of base period charging rule.
TX	12 months	At least 10%, but not more than 40%.	52 weeks	
VT	6 months or date in plan, which-ever is earlier.	Not less than 20%, but not more than 50%.	26 weeks	
WA	12 months or date in plan, which-ever is earlier.	Not less than 10%, but not more than 50%.	26 weeks	

EXTENSIONS AND SPECIAL PROGRAMS

SELF-EMPLOYMENT ASSISTANCE (SEA) PROGRAM

SEA programs help unemployed workers to create their own jobs by starting small businesses. To be eligible for SEA payments, workers must be:

- Eligible for UI;
- Permanently laid off from their previous jobs;
- Identified as likely to exhaust their benefits; and
- Participating in self-employment activities including entrepreneurial training, business counseling, and technical assistance.

The authorizing federal law requires that no more than 5% of workers receiving regular UI benefits may be part of an SEA program. Workers enrolled in an SEA program will receive weekly self-employment payments. These payments will be the same weekly amount as the worker's regular UI benefit, while working full-time on starting a business.

TABLE 4-5: STATES WITH SEA PROGRAMS		
Delaware	Maine	Maryland
New Jersey	New York	Oregon
Pennsylvania	California (Has authority in law but no program)	Louisiana

DISASTER UNEMPLOYMENT ASSISTANCE (DUA)

The Robert T. Stafford Disaster Relief and Emergency Assistance Act authorizes the President to provide to any individual unemployed as a result of a major disaster such assistance as the President deems appropriate while the individual is unemployed. These DUA payments are made by state UI agencies under agreements with the Secretary of Labor. Funds for both benefits and administrative costs are provided by the Federal Emergency Management Administration to the Secretary of Labor who, in turn, makes them available to the states.

ELIGIBILITY—In general, federal regulations provide that certain individuals living or working in areas affected by a major disaster who are unemployed because of the disaster are eligible for DUA even if they are not eligible for UI benefits or other wage replacement payments. Applications for DUA must be filed within thirty days of the Governor's announcement of a disaster in the state; the unemployment must be directly caused by the disaster; and individuals must be able and available for suitable work.

DISASTER ASSISTANCE PERIOD—The disaster assistance period – the period during which DUA is payable – begins with the first week following the date the major disaster began. DUA is available to an individual during this period as long as unemployment caused by the disaster continues or until he or she is reemployed in a suitable position, but no longer than 26 weeks after the major disaster is declared.

WEEKLY ASSISTANCE AMOUNT—Except in Guam, American Samoa, Northern Mariana Islands, Marshall Islands, Micronesia, and the Trust Territory of the Pacific Islands (Palau), the weekly DUA amount is the greater of the following: (1) the amount of the average weekly regular UI payment (including allowances for dependents) in the state in which the major disaster occurred; or (2) the weekly amount to which the individual

would have been entitled under the state law for a week of total unemployment had all of his or her work and wages been included as employment and wages under such state law.

DEDUCTIONS—The DUA payable to an individual for a week is reduced by the amount of any of the following that an applicant has received for the week or would receive for the week if he or she filed a claim: (1) any compensation or insurance from any source for loss of wages due to illness or disability; (2) supplemental unemployment benefits pursuant to a collective bargaining agreement; (3) worker's compensation by virtue of death of head of household; and (4) the amount of retirement pension or annuity under a public or private retirement plan or system if such amount is deductible under the state UI law. In addition, the weekly DUA amount is reduced by the amount of wages that the individual earns in a week as determined by applying to the wages the earnings allowance for partial or part-total unemployment prescribed by the applicable state UI law.

(3)

Who Says Extending Unemployment Benefits Can Lead to More and Longer Unemployment?

April 10, 2008

Democrat Leaders have argued Republicans are wrong to suggest extending unemployment benefits can lead to less work and longer unemployment spells, especially in States where jobless rates are low. For example, Senate Majority Leader Harry Reid (D-NV) has said **Republicans "believe that if you extend unemployment benefits it only keeps people from looking for a job, which is a little hard to comprehend.**"[1]

Perhaps Senator Reid can comprehend the following statements by fellow Democrats and others who assert that extending unemployment benefits can lead to more and longer unemployment – especially in areas where jobless rates are relatively low, as in most States today.

1. Lawrence Summers, Secretary of Treasury, Clinton Administration (1999-2001)[2]

"To fully understand unemployment, we must consider the causes of recorded long-term unemployment. Empirical evidence shows that two causes are welfare payments and unemployment insurance.

First, **government assistance increases the measure of unemployment by prompting people who are not working to claim that they are looking for work even when they are not**….

The second way government assistance programs contribute to long-term unemployment is by providing an incentive, and the means, not to work. Each unemployed person has a "reservation wage"—the minimum wage he or she insists on getting before accepting a job. Unemployment insurance and other social assistance programs increase that reservation wage, causing an unemployed person to remain unemployed longer….

Unemployment insurance also extends the time a person stays off the job. Clark and I estimated that the existence of unemployment insurance almost doubles the number of unemployment spells lasting more than three months."

2. Lawrence Katz, Chief Economist, U.S. Department of Labor, Clinton Administration (1993-94)[3]

"**Changes in the level of benefits and changes in the potential length of benefits have substantial effects on the mean duration of unemployment of UI recipients**….An increase in the potential duration of benefits from 26 to 39 weeks is predicted to raise the mean unemployment spell duration by 2.1 weeks in both

simulations. **This is a surprisingly large effect** given that most spells are completed well before the 26 weeks of regular benefits run out." (p. 29)

"There are large spikes in the escape rate from unemployment at 26 weeks and at 39 weeks for UI recipients. Spikes of similar magnitude at 26 and 39 weeks are not apparent for UI non-recipients." (p. 14)

"An increase in potential benefit duration from six months to one year is predicted to increase mean duration of unemployment by 4 to 5 weeks." (p. 35)

"(E)xtending benefits may reduce the total money income of UI recipients. If one assumes that reemployment earnings are 90 percent of previous earnings, then both specifications yield the prediction that **the income of the typical UI recipient actually falls in response to an increase in potential benefit duration from 26 to 39 weeks."** (p. 34)

3. The New York Times[4]

"The expiration of (unemployment) benefits typically helps the economy, forcing people to find work eventually and preventing unemployment stretches from reaching the length they do in Europe, where benefits are more generous, economists say."

4. The Congressional Budget Office[5]

"Extending the duration of benefits or increasing their size means that at least some recipients may remain unemployed longer than they would have without that aid. **The effect is probably most pronounced when jobless rates are relatively low."**

1 February 1, 2008, http://www.theledger.com/article/20080201/ZNYT01/802010307/1001/BUSINESS

2 The Concise Encyclopedia of Economics, http://www.econlib.org/library/Enc/Unemployment.html

3 From "*The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment*" by Lawrence F. Katz of Harvard University, and Bruce D. Meyer of Northwestern University, Revised September 1988

4 "*Long-Term Jobless Rose by 50 Percent Over the Last Year,*" September 9, 2002.

5 "*Options for Responding to Short-Term Economic Weakness*, January 2008, p. 17 http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ_Stimulus.pdf

4

Comparison of Labor Market Data in 1996 and 2008

<u>Democrats on the Economy in 1996</u>:
"Our economy is the healthiest it has been in three decades." (President Bill Clinton, State of the Union Address, January 23, 1996)

<u>Democrats on the Economy in 2008</u>:
"The bottom line is that this administration is the owner of the worst jobs record since Herbert Hoover." (Senator Charles Schumer, Press Release, March 7, 2008)

Key Labor Market Data in 1996 and 2008		
	March 1996	**March 2008**
1. U.S. Unemployment Rate	5.5%	5.1%
2. Number of Long-Term Unemployed	1.33 million	1.28 million
3. Average Weeks Unemployed	17.3 weeks	16.2 weeks
4. Median Weeks Unemployed	8.3 weeks	8.1 weeks
5. Not in Labor Force because discouraged over job prospects	451,000	401,000

Mr. WELLER. Thank you, Mr. Chairman.

Mr. Brill, as we have noted here, in this economy where high unemployment occurs appears to be regional. In the most recent data available, 19 states have unemployment rates of 4 percent or less. Five states have 3 percent or less unemployment, which is pretty incredible when you think of the economy.

In February 2008, there were only two states that had unemployment rates above 6 percent, Alaska and Michigan. Twenty-seven percent of states are currently within 1 percentage point of their all time low unemployment rate. That includes the Chairman's home State of Washington.

The unemployment rates in 42 states are currently half or less of their all time high's.

It appears that where there is high unemployment, it tends to be in certain regions of the country.

Can you help us identify currently where the weakest labor markets are today? What regions? Any particular states and what industries?

Mr. BRILL. Thank you. As you noted, there is considerable diversity across the country with regard to the situation with the labor markets. Some states have rising unemployment and others have fallen.

Forty-three states and the District of Columbia saw employment gains in 2008 and the largest gains were in Wyoming, Texas, Utah, Washington and Colorado. On the other hand, seven states experienced declines in employment, the largest of which were Rhode Island, Michigan, Florida and Nevada.

This is a result of the fact that the economies vary State to State. For example, the auto sector, which has been hurt significantly, and the housing sector, which has been hurt significantly in certain regions in the country, the economies are particularly weak in those areas.

Parts of California have unemployment rates over ten percent, and the overall rate in California is high. The rate is high as well in Michigan, as was noted earlier.

A lot of states have very low unemployment rates, and that is a result of a number of factors. As Dr. Blank noted, age issues are a factor. Other factors include unionization rates, states with higher degrees of unionization tend to have higher unemployment rates.

Factors include the percentage of workers that are foreign born. Although foreign born workers tend to be younger and less educated than the overall workforce due to characteristics generally associated with higher unemployment rates, foreign born workers tend to have lower unemployment rates as a population. There is considerable variation.

Certainly in states where unemployment is a problem and unemployment rates are high, it is important to provide sufficient UI support to help those people get jobs.

Mr. WELLER. I think all of us really want to help those in need of help, and we want to find a way to get the resources to those who need help, and we always have limited resources. So, there is no unlimited amount of resources available.

South Dakota is fortunate to have 2.6 percent unemployment compared to other states like Michigan and Alaska that have the highest unemployment.

Does it make sense to provide proportionately the same amount of expanded resources to states like South Dakota? There are some people that do need help. Should we be targeting to those who need help or should we just across the board give the same benefits, the same resources to everybody?

Mr. BRILL. With regard to states that have very low unemployment, I think it is important to remember that what we are considering is extending from the current system. Of course, we have a system that provides generally 26 weeks of unemployment benefits.

For those in states that are currently experiencing relatively low unemployment, those workers are eligible for UI. We could discuss the issue of unemployment reforms and we could discuss whether those workers in those low unemployment states are properly cared for, but when the question becomes providing extended benefits because these situations are particularly worse, then no, I think it is inappropriate to provide the limited resources in the low unemployment states.

Mr. WELLER. I realize I am pushing the limits of my time and on other colleagues of mine, I have questions I would like to ask as well.

Both the Chairman and I have proposed creating an expanded wage insurance program as a way to help unemployment workers get back on their feet and get back into the workforce.

I have suggested that we give states the ability to experiment, just like the Chairman back when he was a State legislator was a leader on unemployment insurance issues within his State, Washington State, and did a number of things which provided examples of what may or may not work to other states, I believe states should have the ability to experiment and do a trial program for wage insurance.

Do you think wage insurance offers a solution to help workers who are unemployed get back to work?

Mr. BRILL. I think wage insurance is a very interesting idea as an alternative or a complement to the current system. To be honest, I am not sure exactly how it should be designed and I think the notion of State flexibility and the opportunity to experiment because we do not have the experience to know exactly how this program should be formulated, but to give the opportunity for states to try. I think that is an opportunity for us to learn and potentially provide a new benefit or a more efficient benefit for all workers.

Mr. WELLER. Thank you, Mr. Brill. Mr. Chairman, you have been generous in allowing me to go beyond my 5 minutes. Thank you.

Chairman MCDERMOTT. Thank you. Mr. Davis will inquire.

Mr. DAVIS. Thank you, Mr. Chairman. Thank you for letting me get ahead of my esteemed colleague to my left, Mr. Stark.

Let me pick up on Mr. Weller's observations. I have a lot of respect for Mr. Weller and I think this Committee will miss his thoughtfulness, but as he knows, when someone says something nice like that, it is a code for going on to bash his bill.

[Laughter.]

Mr. DAVIS. Let me use my State as an example. I would ask unanimous consent, Mr. Chairman, to put in the record a news release from the Alabama Department of Industrial Relations regarding unemployment numbers for the State of Alabama.

Chairman MCDERMOTT. Without objection, so ordered.

[The information referred to follows:]

NEWS RELEASE

STATE OF ALABAMA
Department of Industrial Relations
News For Immediate Release
Contact: Ron Macksoud, 334-242-8616

FEBRUARY STATE UNEMPLOYMENT RATE DROPS TO 3.7 PERCENT

MONTGOMERY, ALABAMA, March 28, 2008 . . . . Unemployment in Alabama fell to 3.7 percent in February compared to 4.0 percent in January. In February 2007 the state recorded a 3.3 percent unemployment rate.

"The February jobless figure represents 82,040 unemployed persons compared to 89,078 in January, and 72,006 in February 2007," says Tom Surtees, Alabama Department of Industrial Relations director. "From January to February wage and salary employment increased 7,800, with a gain of 3,300 jobs in the government sector leading the way."

The comparable February U.S. jobless rate is 4.8 percent, a decrease from 4.9 percent in January. The national rate in February 2007 was 4.5 percent.

Over the year there was a net gain of 18,000 wage and salary jobs in Alabama. The majority of the annual growth occurred in trade, transportation, and utilities (+6,900), government (+5,900), professional and business services (+4,400), educational and health services (+2,400), and construction (+2,300). Manufacturing (-5,800) experienced the majority of job losses.

The lowest county unemployment rates for February are: Shelby (2.7 percent), Madison (3.0 percent), Blount and Tuscaloosa (3.3 percent), and Houston and Baldwin (3.4 percent). The highest county rates for February are: Wilcox (10.2 percent), Chambers and Perry (8.5 percent), Dallas (7.6 percent), Bullock (7.3 percent), and Henry (7.2 percent).

The Alabama unemployment rate for March is scheduled for release April 18.

# # #

County unemployment rates, Metropolitan Area Unemployment Rates, and an Alabama map of county unemployment rates, are available at: http://dir.alabama.gov. Click on "Alabama Labor Market Information Division" under "Quick Links" & follow prompts.

FEBRUARY 2008 UNEMPLOYMENT DATA

Area	Civilian Labor Force Prel Feb 2008	Civilian Labor Force Rev Jan 2008	Civilian Labor Force Rev Feb 2007	Employment Prel Feb 2008	Employment Rev Jan 2008	Employment Rev Feb 2007	Unemployment Prel Feb 2008	Unemployment Rev Jan 2008	Unemployment Rev Feb 2007	Unemployment Rate Prel Feb 2008	Unemployment Rate Rev Jan 2008	Unemployment Rate Rev Feb 2007
Alabama (Seasonally Adjusted)	2,201,016	2,219,900	2,172,723	2,118,976	2,130,812	2,100,717	82,040	89,070	72,006	3.7%	4.0%	3.3%
Alabama (Not Seasonally Adjusted)	2,105,420	2,204,521	2,165,062	2,095,579	2,108,637	2,084,152	89,841	95,884	80,910	4.1%	4.3%	3.7%
Autauga	24,847	25,057	24,342	23,961	24,088	23,589	886	969	754	3.6%	3.9%	3.1%
Baldwin	82,543	83,281	80,756	79,819	80,270	78,249	2,824	3,011	2,507	3.4%	3.6%	3.1%
Barbour	10,301	10,469	10,338	9,569	9,690	9,505	732	779	532	7.1%	7.4%	5.1%
Bibb	8,869	8,956	8,845	8,497	8,555	8,513	372	401	332	4.2%	4.5%	3.8%
Blount	26,849	27,091	26,841	25,962	26,139	26,011	887	952	830	3.3%	3.5%	3.1%
Bullock	3,512	3,576	3,534	3,255	3,259	3,260	257	317	274	7.3%	8.9%	7.8%
Butler	9,013	9,072	8,981	8,434	8,460	8,483	579	612	498	6.4%	6.7%	5.5%
Calhoun	54,902	55,333	54,540	52,753	53,069	52,537	2,149	2,264	2,003	3.9%	4.1%	3.7%
Chambers	15,451	15,579	15,341	14,130	14,283	14,460	1,321	1,296	881	8.5%	8.3%	5.7%
Cherokee	12,117	12,108	11,777	11,596	11,590	11,305	521	518	472	4.3%	4.3%	4.0%
Chilton	19,819	20,005	19,779	19,103	19,234	19,140	716	771	639	3.6%	3.9%	3.2%
Choctaw	5,222	5,326	5,246	4,895	4,925	4,984	327	401	262	6.3%	7.5%	5.0%
Clarke	10,383	10,545	10,166	9,763	9,876	9,586	620	669	580	6.0%	6.3%	5.7%
Clay	5,841	5,979	6,150	5,490	5,627	5,833	351	352	317	6.0%	5.9%	5.2%
Cleburne	6,506	6,567	6,335	6,265	6,308	6,125	241	259	210	3.7%	3.9%	3.3%
Coffee	20,959	21,096	20,880	20,220	20,276	20,059	739	820	821	3.5%	3.9%	3.9%
Colbert	25,825	26,013	25,345	24,579	24,733	24,226	1,246	1,280	1,119	4.8%	4.9%	4.4%
Conecuh	4,915	4,956	4,922	4,570	4,576	4,641	345	380	281	7.0%	7.7%	5.7%
Coosa	4,709	4,704	4,739	4,424	4,456	4,447	285	248	292	6.1%	5.3%	6.2%
Covington	17,026	17,115	16,962	16,246	16,284	16,323	780	831	639	4.6%	4.9%	3.8%
Crenshaw	6,589	6,610	6,398	6,323	6,308	6,135	266	302	263	4.0%	4.6%	4.1%
Cullman	39,251	39,711	39,374	37,830	38,239	38,065	1,421	1,472	1,309	3.6%	3.7%	3.3%
Dale	20,587	20,756	20,448	19,819	19,674	19,662	768	882	786	3.7%	4.2%	3.8%
Dallas	15,440	15,526	15,449	14,272	14,236	14,365	1,168	1,290	1,084	7.6%	8.3%	7.0%
DeKalb	31,081	31,386	30,711	29,768	29,909	29,424	1,313	1,477	1,287	4.2%	4.7%	4.2%
Elmore	35,774	36,034	35,127	34,508	34,693	33,972	1,266	1,341	1,155	3.5%	3.7%	3.3%
Escambia	14,424	14,542	14,186	13,661	13,680	13,512	763	862	674	5.3%	5.9%	4.8%
Etowah	45,488	45,829	45,594	43,429	43,058	43,626	2,059	2,171	1,968	4.5%	4.7%	4.3%
Fayette	7,391	7,480	7,428	6,997	7,072	7,075	394	408	350	5.3%	5.5%	4.7%
Franklin	13,908	13,910	13,676	13,276	13,228	13,081	632	682	595	4.5%	4.9%	4.4%
Geneva	11,692	11,767	11,719	11,274	11,334	11,313	418	433	406	3.6%	3.7%	3.5%
Greene	3,492	3,530	3,457	3,264	3,275	3,252	228	255	205	6.5%	7.2%	5.9%
Hale	7,275	7,347	7,251	6,924	6,947	6,899	351	400	352	4.8%	5.4%	4.9%
Henry	7,774	7,846	7,531	7,214	7,253	7,239	560	593	292	7.2%	7.6%	3.9%
Houston	46,762	47,169	46,804	45,166	45,405	45,320	1,596	1,764	1,484	3.4%	3.7%	3.2%
Jackson	27,116	27,471	26,811	25,939	26,249	25,574	1,177	1,222	1,237	4.3%	4.4%	4.6%
Jefferson	317,029	319,814	316,561	304,731	306,810	305,310	12,298	13,004	11,251	3.9%	4.1%	3.6%
Lamar	5,922	5,961	5,865	5,579	5,602	5,520	343	359	345	5.8%	6.0%	5.9%
Lauderdale	43,426	43,866	42,629	41,558	41,818	40,962	1,868	2,048	1,667	4.3%	4.7%	3.9%
Lawrence	16,122	16,200	15,565	15,139	15,458	14,974	983	742	621	6.1%	4.6%	4.0%
Lee	66,654	66,974	64,517	64,177	64,099	62,344	2,477	2,875	2,173	3.7%	4.3%	3.4%
Limestone	37,234	37,332	36,146	35,812	36,032	34,985	1,422	1,300	1,161	3.8%	3.5%	3.2%
Lowndes	4,868	4,928	4,795	4,519	4,543	4,448	349	385	316	7.0%	7.8%	6.6%
Macon	8,924	9,024	8,721	8,418	8,423	8,316	506	601	405	5.7%	6.7%	4.6%
Madison	167,159	168,707	163,331	162,145	163,144	158,404	5,014	5,563	4,927	3.0%	3.3%	3.0%
Marengo	8,110	8,196	8,264	7,638	7,675	7,906	472	521	358	5.8%	6.4%	4.3%
Marion	12,914	13,125	12,908	12,222	12,344	12,293	692	781	615	5.4%	6.0%	4.8%
Marshall	41,357	41,670	41,299	39,903	40,123	39,928	1,454	1,547	1,371	3.5%	3.7%	3.3%
Mobile	185,230	186,774	183,954	177,561	178,369	177,185	7,669	8,405	6,769	4.1%	4.5%	3.7%
Monroe	8,789	8,923	9,034	8,211	8,305	8,522	578	618	512	6.6%	6.9%	5.7%
Montgomery	107,438	108,411	105,337	102,909	103,458	101,309	4,529	4,953	4,028	4.2%	4.6%	3.8%
Morgan	57,436	57,935	55,923	54,536	55,688	53,942	2,900	2,247	1,981	5.0%	3.9%	3.5%
Perry	3,493	3,568	3,478	3,197	3,246	3,222	298	322	258	8.5%	9.0%	7.4%
Pickens	7,970	8,078	7,979	7,539	7,594	7,563	431	424	416	5.4%	5.3%	5.2%
Pike	15,762	15,950	15,322	15,211	15,330	14,764	551	620	558	3.5%	3.9%	3.6%
Randolph	9,556	9,606	9,717	9,107	9,111	9,329	449	495	388	4.7%	5.2%	4.0%
Russell	21,276	21,472	21,076	20,036	20,131	20,021	1,240	1,341	1,055	5.8%	6.2%	5.0%
Shelby	98,629	99,485	98,613	95,919	96,574	96,101	2,710	2,911	2,512	2.7%	2.9%	2.5%
St. Clair	35,199	35,539	35,131	33,897	34,129	33,962	1,302	1,410	1,169	3.7%	4.0%	3.3%
Sumter	4,772	4,983	4,689	4,487	4,640	4,420	285	339	269	6.0%	6.9%	5.7%
Talladega	38,869	39,334	39,074	36,934	37,302	37,156	1,935	2,032	1,918	5.0%	5.2%	4.9%
Tallapoosa	18,194	18,399	18,184	17,203	17,326	17,294	991	1,073	890	5.4%	5.8%	4.9%
Tuscaloosa	89,210	89,924	88,618	86,258	86,555	85,951	2,951	3,369	2,667	3.3%	3.7%	3.0%
Walker	29,833	30,172	30,031	28,582	28,777	28,636	1,251	1,395	1,395	4.2%	4.6%	4.6%
Washington	6,968	7,061	6,841	6,578	6,591	6,443	390	470	298	5.6%	6.7%	5.8%
Wilcox	3,399	3,469	3,370	3,052	3,082	3,085	347	387	285	10.2%	11.2%	8.5%
Winston	9,925	10,058	10,328	9,317	9,395	9,782	608	663	546	6.1%	6.6%	5.3%
United States (Seasonally Adjusted)	153,374,000	153,824,000	152,725,000	145,993,000	146,248,000	145,888,000	7,381,000	7,576,000	6,837,000	4.8%	4.9%	4.5%
United States (Not Seasonally Adj.)	152,503,000	152,828,000	151,879,000	144,550,000	144,607,000	144,479,000	7,953,000	8,221,000	7,400,000	5.2%	5.4%	4.9%

Mr. DAVIS. There are 67 counties, Mr. Brill, in my State. Our State unemployment rate would be described as a low one. Our unemployment rate for the entire State is 3.7 percent. We actually are one of the states that have dropped in unemployment from January to February. It looks very rosy.

However, 23 counties in my State out of 67 have an unemployment rate above 6 percent. It is about one out of three. Some of those rates are as high as 10 and 11 percent.

I would suspect if I were to get similar numbers from the Georgia Department of Industrial Relations, my friend, Mr. Lewis here, from South Carolina or Mississippi, I would see that phenomenon repeat itself.

It is very common, particularly in the American South, that there are wide disparities in unemployment rates within states. Frankly, it does the many people living in those 23 counties in Alabama no good to say to them, well, you are lucky to be living in a State with low unemployment, therefore you do not qualify for an extension of your benefits.

Any kind of a process that ties or triggers an extension of benefits to so-called high unemployment states is going to leave out a lot of states, as the panel has very correctly and aptly pointed out. It is also going to leave out a lot of people living in counties within states that have low unemployment.

I think it makes a broader point that perhaps we ought to become more focused on it from a public policy standpoint. Why are we having these vast disparities within states.

Literally, if you knew the profile of Alabama, you could look at some of these counties and you could look at the counties that are adjacent to them and you see three or four or 5 percent gaps in a span that takes you maybe 10 minutes to drive sometimes.

That does not make a whole lot of sense economically, and I think it raises a very interesting question, and I wonder if the South is somewhat unique in that regard that we are having pockets of vast unemployment whereas in the overall sea, it is a lot more positive.

Maybe you would like to comment on that trend or that phenomenon.

Mr. BRILL. I would just note that I do not know that it is unique to the South. For example, I know that in parts of California, there are unemployment rates that are very high and others where it's much lower.

I would suggest that this disparity would indicate that even more targeting may be appropriate. I do not know the administrative feasibility of this, but perhaps what we should consider is opportunities to allow states to provide benefits, to allocate their benefits appropriately to particular counties.

Mr. DAVIS. That would be one answer. Another answer would be to do what the Chairman wants to do, which is to extend unemployment benefits across the board, recognizing that any approach which tries to slice out in favor of a particular area is going to leave a lot of people out. That is why I favor the Chairman's bill.

Let me turn to the second observation. One of the things my friend Mr. Stark points out that I think is a very interesting point here is that it would not cost the Government any new money. It

would not run up our deficit in any way. It would not require any offsets for us to increase unemployment insurance benefits as we are drawing from a fund we have already created. That is a point that needs to be made.

It leads to my last point. There is a broad philosophic difference, I think, that exists here, Mr. Brill. Some of us remember, I suspect before you were born or around that time, President Ronald Reagan liked to say that he thought that unemployment insurance was a prepaid vacation plan for free loaders.

We thought we kind of buried the idea in the 1990s but the Speaker was telling me yesterday that she was in a meeting at the White House with some of the President's advisors on April 7, 2008 that were saying they think unemployment insurance is an incentive for people not to work.

I wish that we would leave that mindset for a very simple reason. Whether or not someone wants to work is based on whether or not jobs are available. That is about 90 percent of it. The remaining ten percent of it is whether you have a mindset or desire to go out and work, but the idea that people are going to be pulled into a mindset that says I do not want to work because of unemployment benefits, frankly ignores a lot of what conservatives tell us.

I thought it was conservatives who talk about the cultural roots of the willingness to work or the cultural roots of a desire to participate in the community.

If conservatives believe there are strong cultural roots to whether or not one wants to work, then surely you do not think a little bit of money from the Federal Government is going to displace that, but I yield back my time.

Chairman MCDERMOTT. Mr. Camp will inquire.

Mr. CAMP. Thank you, Mr. Chairman. I appreciate Mr. Davis' comments. I do just want to say that I do not want to get into that argument too much, but Lawrence Summers, an official of the Clinton Administration, takes that same view. This is not just Republicans who believe that his quote is to fully understand unemployment, we must consider the causes of record long term unemployment. Empirical evidence shows that two causes are welfare payments and unemployment——

Mr. DAVIS. Can I put that evidence in the Indiana primary?

Mr. CAMP [continuing]. Please. It is my time. Welfare payments and unemployment insurance. I just want to set the record straight that there are Democrat officials who take the view—I do not necessarily subscribe to that view. I do think we want to have some balance here in our discussion.

I have a question for the entire panel. If you could just answer yes or no. My question is should Congress extend unemployment benefits by another 3 months in those 19 states where unemployment is four percent or lower?

If you could just answer, please, yes or no. I will start with Dr. Blank.

Dr. BLANK. Yes, because it targets assistance to those who are long due unemployed in those states.

Dr. SHIERHOLZ. I take exactly the same position. It just is going to the long term unemployed so it is implicitly well targeted. It is okay to do it even in the low unemployment states.

Mr. EMSELLEM. I do not understand the question. Are you saying just limit it to the 19 states?

Mr. CAMP. No. Should they extend unemployment benefits or employment benefits by another 3 months in those 19 states where the rate is 4 percent or lower.

Mr. EMSELLEM. Yes, and I will tell you why. If you take a look at the chart in our testimony for each State, there are large numbers of long term unemployed in all those other states, as was mentioned.

Mr. CAMP. Thank you. Mr. Brill?

Mr. BRILL. No, I do not think it is appropriate.

Mr. CAMP. I appreciate Mr. Davis' unemployment statistics, but we have, in Michigan, many counties with over 13 and 14 percent unemployment in our State, and I do want to ask for the three of you who answered yes, if it makes sense to extend benefits in those states, for example, states like I think Utah is below 4 percent, when and where does it not make sense to extend unemployment benefits? Is there ever a level?

Mr. EMSELLEM. In my mind, it is not a geographic issue. It is about supporting the long term unemployed. It is about responding to the crisis of long term unemployment.

If you have a large plant in your community that happens to have 3 percent unemployment and you were laid off and it is hard to find a job in that community as a result of a major layoff, those folks need extended unemployment benefits.

That is why Congress never in the history of the program has just responded with an extension that only helps some states. They have always helped the whole country because it is also about helping the whole economy.

Mr. CAMP. Utah is going to get extended unemployment with a rate at 3 percent. Last year, Michigan was at seven percent, and we had nothing.

My question is we are going to give benefits to a State where the unemployment rate is 3 percent, yet last year we had a State with 7 percent unemployment and they are not going to have any benefits for last year at all.

I guess I would like to hear Dr. Blank and Mr. Brill comment on that. My time is very limited. I am sorry.

Dr. BLANK. The question here is how many of the long term unemployed are in Michigan and more are in Michigan than in some other states. Therefore, extended benefits are going to help more people in Michigan than they are going to help in some other places.

Long term unemployment, as Dr. Shierholz notes, is unusually high for this point in the economic cycle, and seems to be spread across a large number of states.

If the goal of extended benefits is essentially to assist people who run out of their insurance, who still need some additional help because there are not necessarily jobs available, it does not matter whether that person is in Utah or Michigan. I think the goal of the program should be to help the long term unemployed.

Mr. CAMP. Mr. Brill?

Mr. BRILL. I would just note that the idea of extended benefits is extended relative to the current system. The current system allows for 26 weeks of unemployment insurance in all states. Given that, most workers who receive unemployment benefits receive unemployment for significantly fewer than 26 weeks and the average or the median varies, but most workers are on for a few weeks, 10 weeks or 11 weeks.

To some extent, we already have an extended benefits program. We provide up to 26 weeks.

The question of how many weeks should be available is a more fundamental reform-oriented question. As you noted, Michigan last year versus Michigan this year, there are people in Michigan with long term unemployment problems and that is a more fundamental question.

Mr. CAMP. Thank you. Thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you. Mr. Lewis will inquire.

Mr. LEWIS. Thank you very much, Mr. Chairman. Thank you for holding this hearing today.

Mr. Brill, maybe I am missing something. I do not quite understand what you meant by saying states with greater or higher union workers would have higher unemployment. Could you explain that?

Mr. BRILL. Mr. Lewis, there is a variety of factors that determine——

Mr. LEWIS. A State like Michigan or New York or Ohio where you have a high degree of organized labor or labor activity?

Mr. BRILL. That is right. To be honest, I am not sure exactly why, but I know it is the case that, in those states, the natural level of unemployment, even when the economy is doing well, tends to be slightly higher than in other states where there is——

Mr. LEWIS. If you follow that argument, then workers should not be organized.

Mr. BRILL. It may be a result of the industries that are involved in the unemployment rates inherent in those industries more so than the notion of being organized in general, or there may be issues relating to the bargaining matters and natures thatperiodicallyaffect the unemployment rate.

Mr. LEWIS. Thank you. Dr. Blank, I believe in your testimony you suggested that many people in the workforce, who have been in the workforce, have literally given up. They are unemployed. They are no longer being counted.

We do not get a true reflection of the people. They are no longer looking for work. I would like for you to elaborate.

Dr. BLANK. The Bureau of Labor Statistics actually has in recent years been collecting better information on that group, a group they call the “marginally attached,” people who have looked for work in the recent past but say they have stopped looking for work because they have not been successful, so discouraged workers is sort of the common term for this group.

That is also a group that has been growing quite rapidly. It is another sign of a serious economic slowdown, that people are discouraged enough that they have even stopped looking.

Mr. LEWIS. Dr. Blank, the President and his allies have argued that we should wait to pass additional stimulus legislation until the tax rebate sort of works its way and fits in and makes things better.

How long do we think people should wait?

Dr. BLANK. It is always dangerous as an economist to try to forecast where we are going in the economy.

Mr. LEWIS. Are we in a recession already?

Dr. BLANK. I think we are clearly in a recession according to all the indicators. Time will tell. This always get determined a year later. I think it is going to be very unlikely that it does not turn out that we are in a recession at this point in time.

The challenges, the things that we often do in a recession, which is ease up on monetary policy and make credit easier, are not working very well because of the very unusual situation in the credit markets, and that is the reason to think about doing fiscal stimulus.

I personally think that the fiscal stimulus package could have gone further. I would have liked to have seen extended benefits in that package. I would like to see some consideration of additional benefits that go particularly to the very bottom end of the income distribution such as additional food stamp benefits, something that we know are really going to get in the hands of people for whom most of these price increases are most devastating.

Mr. LEWIS. Dr. Shierholz, do you have an opinion?

Dr. SHIERHOLZ. I am sorry.

Mr. LEWIS. How long should we wait?

Dr. SHIERHOLZ. I think we should implement these immediately. First, there are 1.3 million long term unemployed right now, and getting support to these people is really important. If we do not implement this right now, we lose, as Dr. Blank said, the stimulative effect. Getting this done right now has the best chance to have it work its stimulative effect on the economy.

Mr. LEWIS. Thank you. Thank you, Mr. Chairman.

Chairman MCDERMOTT. Thank you. Mr. Stark will inquire.

Mr. STARK. I must admit to some confusion here as to Government policy. My dear friend and colleague, Mr. Davis, did happen to look at my comments or questions, talking about possibly spending $13 billion under Mr. McDermott's bill, and that the money is in a trust fund, as I understand it, so there would be no increase to the deficit.

Somehow in our wisdom, at just about the same time, we plan to—we risk the opportunity to spend $30 billion to bail out Bear Stearns, with no idea where those dollars would come from.

I would like to ask which of those programs, the $30 billion of new deficit or the $13 billion of trust funds that we have already accumulated, which program would help more people and can we identify the beneficiaries?

Dr. Blank.

Dr. BLANK. I think the question—I do not know about the numbers of people helped. Certainly it is clear that the benefits will go to different places in the income distribution. That, I think, is the most important difference between these two programs.

[Laughter.]

Mr. EMSELLEM. We can say for certain, as I mentioned, according to our estimates, over three million Americans will get help as a result of the extension. That is a very large number and almost another million who have run out in the past year and are still looking for work.

Mr. STARK. That bill is going to bail out free enterprise and we are helping protect all our retirement funds; right? Keep the banking system from collapsing. Would that be your answer?

Mr. BRILL. I would note that the $30 billion involved in Bear Stearns is a different $30 billion than the cost of the unemployment insurance, and that——

Mr. STARK. Money is money.

Mr. BRILL [continuing]. One involves the guarantee versus the guarantee expenditures. I would also note that obviously those decisions were controversial and deserving of scrutiny, but at the same time, it is important to have a functioning financial market, particularly given the weakness in the housing market, and it is important to have good credit.

Mr. STARK. It does not help me in my second dilemma, and we are talking about states and the status, articulately explained about different counties. I have the same problem in California. I have a bunch of cities bumping 10 percent and the rest of the State is doing pretty well in some areas.

Some industries, as I think you pointed out in your testimony, the medical care delivery system has a lot of jobs open, if you can qualify, although there are some service jobs in that sector.

A lot of focus here on which State. I keep wondering what difference it makes. Where do you live, Mr. Brill?

Mr. BRILL. Here in Washington.

Mr. STARK. In D.C., in the District?

Mr. BRILL. Yes.

Mr. STARK. You are in an area with almost six percent, but if we get on the Metro 5 minutes in either direction from your house, you are at 3.4 or 3.5 in Maryland or Virginia. Why should somebody who loses their job at the end of the Metro line have any less opportunity than you do to get extended benefits?

What does your geographic location, and admittedly, this is different from trying to measure the difference between South Dakota and California, but why are we not doing this on an individual basis and forgetting about residency?

Mr. BRILL. I admit that it would be imprecise and as I suggested to Mr. Davis, we could consider opportunities for states to have flexibility even within the State.

My point is the economy is always having different unemployment rates in different parts of the country, and individuals are always in very different circumstances.

There is no question that when a worker loses their job through no fault of their own, it can create a significant amount of hardship, particularly if they have no savings, and when jobs are lost because a factory is shut down and it affects an entire community, it can be even more devastating.

I guess I would simply say that those are more fundamental issues and things that should be addressed inside of unemployment

insurance reform. Proposals that consider ways to increase savings for workers——

Mr. STARK. I agree. We were the worse offenders. I do not know if you were here. What we used to do with workers in the Members' restaurant is every time the House would go in recess and there was no business in the restaurant, we put them on leave, and they were supposed to go out and collect unemployment, which is how we compensated the servers and the cooks. We finally came into the 20th century before it was over and changed that.

Those are reforms that I think you and I would agree ought to be dealt with. The geography of it seems to me, and I am sure the rest of the panel would agree, we ought to start dealing with the individual because you could have pockets of dislocation in employment that I think we would all agree we want to deal with.

Mr. BRILL. I think so. I think one way to deal with the individual would be to look at strategies that are individual based, that are in fact portable in some sense.

Joe Stiglitz and Marty Feldstein separately have introduced concepts or proposals to encourage personal savings for times when workers might be displaced through unemployment.

Mr. STARK. I do not think you can hook me up with Mr. Feldstein but maybe you and I can talk a little bit. Thank you, Mr. Chairman.

Chairman MCDERMOTT. Mr. Porter will inquire.

Mr. PORTER. Thank you. Thank you, Mr. Chairman. I appreciate the panel for being here today.

The issue that I would like to have a better understanding of is having to do with undocumented individuals in the country, and not the debate of whether that is right or wrong, because I come from one of the fastest growing Hispanic populations in the country in Nevada. Again, not to debate how we have gotten to this point but there are estimates of 12 to 20 million undocumented individuals in the country for different reasons and that is a debate for another time.

I have tried to listen to your economics this morning and read and have another meeting at the same time, so bear with me.

I know you mentioned this is an unusual time for unemployment and the rates do not necessarily mean what they have historically. Five percent in maybe 1996 is different than 5 percent today, if I understood part of your testimony.

Assuming for a moment that we are growing in the undocumented population a million people a year, give or take, I see in your back up material that we talk about prisoners as a part of the equation and maybe those coming back from the military. What impact has the growth of undocumented individuals in the labor force had on our bottom line of unemployment?

I do not see that those statistics are here. I hear in my district every day concern, and this is not about a prejudice, it is about a job. We have individuals here who are not following necessarily all the rules on being employed. What impact does the 12 to 20 million undocumented individuals have on your statistics today? The fact that we now have ten million more compared to 1996 with your stats, I think, Ms. Blank, 1996 to 2008, what impact does a million more undocumented have on your stats today for the unemployed

and for those who may be looking for work that those jobs have been filled by someone that is not here under the proper circumstances?

Dr. BLANK. I wish I knew the answer to that, sir, better than I do. The problem is of course that we do not really know how many of those individuals are in our statistics and how many of them are not.

By and large in the unemployment statistics, which are personally reported to surveyors, we tend to think that there are fewer undocumented workers in those statistics because that is a population that tends not to be very willing to participate when surveyors call them up and start asking them questions about work.

When you get the employer reported numbers, there are probably a few more in that because obviously there are a number of these people working for employers who are in those surveys.

My guess is that those numbers are probably affecting our unemployment statistics, although my understanding of most undocumented is they tend not to spend long periods of time unemployed. They are often here because they are working sometimes in more than one job.

Mr. PORTER. Let's say 12 million, whatever, what percent of that is of working age? Probably three or four million, I would guess, maybe three million. Purely hypothetical.

Dr. BLANK. My guess is it is higher.

Mr. PORTER. By the way, please understand, I am being very sensitive that there are reasons that folks are here, and it is not for the debate today.

I want to make sure that when we look at stats, especially with some of your institutions where you spend a lot of time, is there a way that we can track this better so we have a better idea? When we come here before Congress, by the way, I am not opposed to what is being proposed today necessarily either, but want us to get a real number of how many folks are being displaced because of a population that is not following the rules.

Mr. EMSELLEM. Just for clarification, I am not sure if this is part of your question, but for unemployment benefits' purposes, you have to be here legally to collect benefits.

Mr. PORTER. I understand.

Mr. EMSELLEM. So, it does not affect those statistics.

Mr. PORTER. That is another——

Mr. EMSELLEM. That is another set of statistics.

Mr. PORTER. As far as those, what I hear in Nevada is I am looking for work but I cannot get work. How many of those folks are working that really should not be here and have taken a job that maybe I would like to have.

Dr. BLANK. I will say that the economic evidence on the extent to which migration, illegal migration as well as legal migration displaces U.S. workers is mixed, and the effects, I will not say they are zero, clearly there are effects. Some of the effects in terms of where native workers locate, what cities people live in is affected.

There is evidence, depending on what you look at, to zero wage effects to some real dis-employment and wage displacement.

A lot of the workers, the jobs that particularly undocumented workers take are often jobs that may not even be out there if you did not have that population and that is one reason——

Mr. PORTER. I understand that category of employee may not be considered in your unemployment stats.

Dr. BLANK. Many of those people just are not in our numbers at all in the unemployment. They have not responded to these surveys.

Mr. PORTER. You look at all wage earners when you look at the unemployment rate, I assume, whether they are by the hour or salaried.

Dr. BLANK. Unemployment rates come off a Government survey, not of employers but of workers. You have to be willing to respond to a national survey that works very hard to get as many people as they can, but I think we all believe that disproportionately undocumented workers do not answer the phone or hang up when they get calls.

Mr. PORTER. It is very real as that large of an employment base if there is three or four million, that could skew your numbers.

Mr. EMSELLEM. I do not know for a fact but I really doubt the survey is in any language other than English as well. I am sure that has some impact on the survey numbers. Maybe the surveyors speak other languages.

Mr. PORTER. Again, I am picking your brain so we have a better understanding in the future when we look at these numbers.

Dr. BLANK. It is a very, very serious set of questions which I suspect everyone, particularly the Bureau of Labor Statistics, would love to have better answers to.

Mr. PORTER. Thank you. I appreciate you all being here today. Thank you.

Chairman MCDERMOTT. Mr. Weller has a question.

Mr. WELLER. Mr. Chairman, I recognize we have votes on the Floor and of course, there is Ways and Means' business on the Floor today, so I know for Members, they have been forced to come and go at this important hearing.

Before I ask a quick question of Dr. Blank, I would just ask unanimous consent that the Members of the Subcommittee have five additional days to submit questions for the witnesses if they have those they would like to submit.

Chairman MCDERMOTT. Without objection, so ordered.

Mr. WELLER. Thank you, Mr. Chairman. Dr. Blank, I had asked Mr. Brill regarding wage insurance earlier and I think our other two panelists have expressed their opinions on wage insurance in the past when they have appeared before the Subcommittee. Both the Chairman and I have proposed various forms of wage insurance proposals as a potential solution to help those on unemployment or who are unemployed get back into the workforce.

I have suggested giving states the ability to experiment, do pilot programs, and the Chairman has proposed a national wage insurance program.

What is your perspective on wage insurance? Should we give states the ability to experiment with wage insurance to see if it is something that would be a solution?

Dr. BLANK. I think wage insurance is a very interesting idea and I would like to see it tried. If you do allow states to experiment, the only caution I would give is you ought to make sure you seriously evaluate those experiments so we actually can learn something from them, which means you want to provide it to some people in a State and not to others, or at least find some comparable populations so you can make a pretty serious evaluation a year or 2 years down the line as to what effects it has had.

Mr. WELLER. Should this Committee decide to move unemployment insurance legislation, you would support including a provision that would give states the authority to experiment?

Dr. BLANK. I would love to see some states experimenting with this, with the provision that I would also like to put a provision in that says if you experiment with this, you have to have a plan which evaluates the experiment in a serious way.

Mr. WELLER. Sure, which is why do the experiment, you want to see how it works.

Dr. BLANK. Absolutely.

Mr. WELLER. Thank you, Dr. Blank. Mr. Chairman, thank you and to all the panelists, thank you.

Chairman MCDERMOTT. I would like to just say one thing. I am sorry Mr. Camp is not here. My understanding is the reason we have not done anything about extending benefits for people in Michigan is because the President and the Minority Leader of the House did not want it in the stimulus package.

Is that your understanding?

Mr. EMSELLEM. I cannot comment on the negotiations but that is what has been reported in the press, that it was definitely that the Republicans and the White House were not in favor of an extension of unemployment as part of their original stimulus package.

Chairman MCDERMOTT. Thank you.

Mr. WELLER. Mr. Chairman, I would say if I recall it correctly, the Speaker agreed to a bipartisan deal.

Chairman MCDERMOTT. They said the bill would not pass if the extension of unemployment benefits was in it.

The meeting is adjourned.

[Whereupon, at 11:15 a.m., the Subcommittee was adjourned.]

[Submissions for the Record follow:]

Statement of S. Eyre McKenrick

I lost my job in the housing industry on November 19, 2007. I have diligently been searching for employment since that time, but to no avail. I have not seen conditions similar since 1990 following the Savings and Loan debacle.

I am extremely concerned that I will not be able to continue to eek out an living for my family once my unemployment benefits run out (6 weeks). Gasoline prices are so high that I'm forced to remain home instead of calling on companies seeking employment. If there is no relief in the form of unemployment benefits extension, then I shall be forced to place the house on the market and move into a rental.

It is imperative for myself and countless others that legislation take place that will extend unemployment benefits.

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